FOREIGN AFFAIRS

JULY/AUGUST 1995

Back to the Womb?

Arthur Schlesinger, Jr., on the New-Old Isolationism

Latin America, the Morning After

Emerging Market Blues — PAUL KRUGMAN

Sobering Growth Realities — MOISÉS NAÍM

Cardoso's Brazilian Dreams — JAMES HOGE

Miami's Cubans Come 'Home' — DAVID RIEFF

The Shrinking Dollar: Let It Slide?

JEFFREY FRANKEL • W. L. GIVENS • DIANE KUNZ

The U.S. in East Asia: Stay or Go?

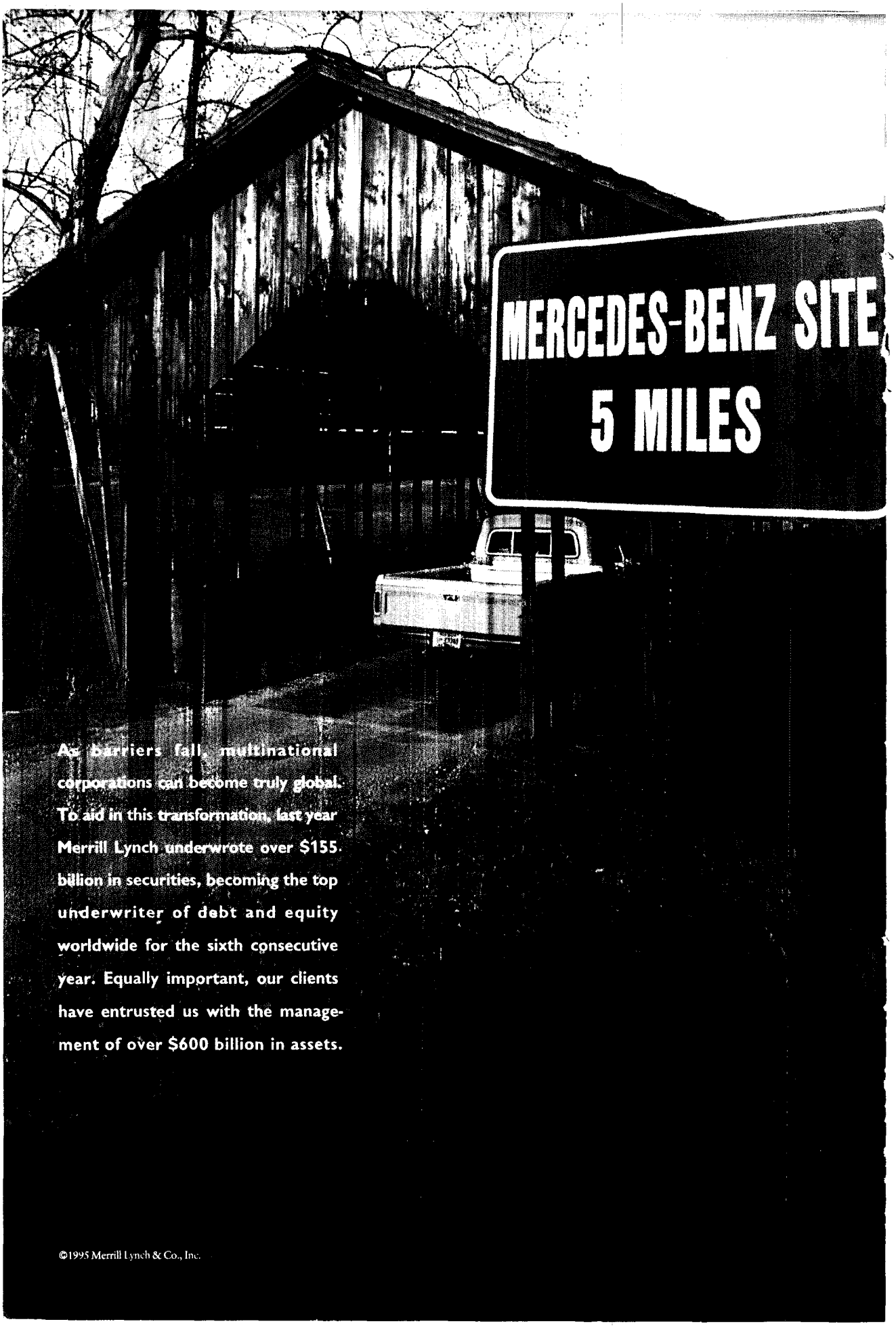
Two Views on Security

JOSEPH S. NYE, JR.

CHALMERS JOHNSON & E.B. KEEHN

$7.95 IN USA · $10.50 IN CANADA

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED



As barriers fall, multinational corporations can become truly global. To aid in this transformation, last year Merrill Lynch underwrote over $155 billion in securities, becoming the top underwriter of debt and equity worldwide for the sixth consecutive year. Equally important, our clients have entrusted us with the management of over $600 billion in assets.

©1995 Merrill Lynch & Co., Inc.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

FOREIGN AFFAIRS

JULY/AUGUST 1995
VOLUME 74, NUMBER 4

Comments

Back to the Womb? *Arthur Schlesinger, Jr.* 2

U.S. isolationism has risen yet again from the grave. The new Republican Congress threatens Wilson's and F.D.R.'s magnificent dream of collective security.

Still the Lingua Franca *Jeffrey A. Frankel* 9

The dollar is declining in value but not in its role as the world's reserve currency. In 2020 the greenback will still be king of the hill. There is simply no alternative.

Economic Cocaine *W. L. Givens* 17

The United States is addicted to dollar devaluation. As a result, America has a false, euphoric sense of progress in its competition with Japan for key markets.

The Fall of the Dollar Order *Diane B. Kunz* 22

Unless the Clinton administration halts the slide of the dollar, the United States will forfeit the financial leadership it has enjoyed since World War II.

Essays

Dutch Tulips and Emerging Markets *Paul Krugman* 28

After the Cold War, everyone believed the world was going capitalist in a hurry. Developing countries followed America's advice to them—"free your markets and strengthen your money." In fact, the gains from both free trade and sound money were overstated. But the force of conventional wisdom ostracized cautious voices. The result was a speculative binge in emerging markets. With the Mexican crisis, the bubble has burst. Politicians in developing countries could continue their reforms only so long as investment poured in. Sooner or later, a reality check was inevitable. Disappointing growth and statist retrenchment may lie ahead.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Latin America the Morning After *Moisés Naím* 45

When thinking about Latin America, despair can be as disorienting as optimism. In the early 1990s, economic euphoria reigned in Latin America. Then came Mexico. The current gloom—the Tequila effect—will also pass. The recent wave of reforms dealt swiftly with such problems as inflation, low exports, currency instability, capital flight, and the boosting of regional trade. But to ensure prosperity after the peso debacle, Latin America must address its underlying woes: poverty, low productivity, and chronically ineffectual civic institutions.

A Conversation with President Cardoso *James F. Hoge, Jr.* 62

Brazil's immense natural wealth and potential have been squandered amid perpetual cycles of reform and authoritarian relapse. This sad fact has prompted the wry observation that Brazil "is the country of tomorrow—and always will be." In an interview with *Foreign Affairs,* Fernando Henrique Cardoso, the new president, makes the case for his ambitious plan to stimulate the private sector, privatize and trim much of the federal government, and attack the deep economic inequalities and social ills that hold his country back. Cardoso discusses the ways he has tried to navigate Brazil's political shoals—a socialist left, a rightist military, the destabilized financial markets of Latin America—while raising the profile and increasing the role of Brazil internationally.

From Exiles to Immigrants *David Rieff* 76

Like Jews, Armenians, and White Russians, Cuban-Americans see themselves as exiled members of a diaspora, not simply immigrants. From Kennedy's Bay of Pigs plan through Clinton's continuation of the trade embargo, U.S. administrations have encouraged the hope of return to a democratic homeland. Every hour of the last 36 years has meant added suffering for the Cubans across the Florida Straits. But Clinton's reversal of the policy of political asylum for all Cuban migrants signals that the Cold War is over, even with Cuba. Cuban-Americans have become just another immigrant group. For Miami, the exile is over.

The Case for Deep Engagement *Joseph S. Nye, Jr.* 90

Security is like oxygen: you tend not to notice it until you lose it. A continued U.S. presence in East Asia provides the oxygen that is so crucial for the region's stability and economic prosperity. Critics who call the Clinton administration's strategy myopic misunderstand the firm U.S. alliance with Japan and the importance of East Asia to U.S. national interests. The United States must maintain its troops, develop regional institutions, bolster its allies, and remain deeply engaged in Asia.

The Pentagon's Ossified Strategy
Chalmers Johnson and E. B. Keehn 103

The Defense Department's new report on East Asia reads as if the Cold War is ongoing. For Japan, the report signals U.S. acceptance of its ruinous trade deficits. For other Asian nations, it signals the hollowness of American superpower pretensions. The report masks the failure of the Clinton administration's trade policy. By insisting Japan remain a U.S. protectorate, Washington encourages Tokyo's reactionaries. The real threat to Asian security is not China but U.S. distrust of Japan as a true ally. Cold War military power is irrelevant to the economic challenges posed by East Asia's dynamism. Someone should tell the Pentagon.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Reviews

Tito's Last Secret *Aleksa Djilas* 116

How did Marshal Tito keep Yugoslavia in one piece? He didn't, really. A new biography portrays the Yugoslavian dictator as a mild, reluctant autocrat who unified his people. The truth is that Tito pursued many policies that exacerbated ethnic tensions. His "genius" rested in his willingness to use raw military and police power, not in his penchant for conciliatory politics.

Trotskyism to Anachronism *John B. Judis* 123

Describing American neoconservatism as a branch of Cold War liberalism, John Ehrman's new study overlooks the Trotskyist roots and missionary mentality that prolonged and escalated the Cold War.

Recent Books on International Relations 130

Francis Fukuyama on E. J. Hobsbawm; Eliot A. Cohen on *The Coming Plague;* David C. Hendrickson on the immigrant tide; Fritz Stern on the Cosa Nostra; William B. Quandt on Hanan Ashrawi.

Underrating 'Preventive Diplomacy' *Michael S. Lund* 160

Critics of "preventive diplomacy" have caricatured it as an attempt to throw away large amounts of money, manpower, and effort based on unrealistically precise forecasts of potential conflicts. But just because early appraisals of potential conflicts are imprecise does not mean they are useless. Early intervention has a solid track record of success.

Letters to the Editor 164

Roger Hilsman and Yuen Foong Khong on McNamara's apologetics; Rita E. Hauser and Roger G. Harrison on Oslo's flaws; Michael D. Burnes, Eugene R. Dattel, Makoto Utsumi, Eamonn Fingleton, Ezra N. Suleiman, Lloyd N. Cutler, and Wendy W. Luers.

The articles in Foreign Affairs *do not represent any consensus of beliefs. We do not expect that readers will sympathize with all the sentiments they find here, for some of our writers will flatly disagree with others; but we hold that while keeping clear of mere vagaries* Foreign Affairs *can do more to inform American public opinion by a broad hospitality to divergent ideas than it can by identifying itself with one school. We do not accept responsibility for the views expressed in any article, signed or unsigned, that appears in these pages. What we do accept is the responsibility for giving them a chance to appear.*

THE EDITORS

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

FOREIGN AFFAIRS

JAMES F. HOGE, JR. *Editor*
FAREED ZAKARIA *Managing Editor*

PATRICIA LEE DORFF, JOSEPH SAXON O'KEEFE *Associate Editors*
JACOB KRAMER *Assistant Editor*

ROSEMARY HARTMAN *Assistant to the Editor*
DEBORAH MILLAN *Assistant to the Managing Editor*
AMY ROWE *Copy Editor*
WARREN BASS *Intern*
ANNA PAPATHEODOROU *Editorial Assistant*

Book Review Editors
ELIOT A. COHEN, RICHARD N. COOPER, FRANCIS FUKUYAMA, GAIL M. GERHART, DAVID C. HENDRICKSON, ROBERT LEGVOLD, KENNETH MAXWELL, WILLIAM B. QUANDT, FRITZ STERN, DONALD ZAGORIA

DAVID KELLOGG *Publisher*

DAWN M. ALBANO *Circulation Director*
CYNTHIA R. VOUGHT *Promotion Coordinator*
DAVID HILMER *Advertising Manager*
CHRISTOPHER S. WEYANT *Advertising Consultant*
ANDREW B. DAVIES *Assistant Account Executive*
ELIZABETH E. HUCKER *Assistant to the Publisher*
HEATH S. PODVESKER *Circulation Assistant*
CAROL J. SCHAPIRO *Advertising Assistant*

Board of Advisers
GARRICK UTLEY *Chairman*
FOUAD AJAMI, MICHAEL R. BESCHLOSS, ROBERT F. ERBURU, JOHN LEWIS GADDIS, RITA E. HAUSER, JIM HOAGLAND, KAREN ELLIOTT HOUSE, CHARLAYNE HUNTER-GAULT, JEANE J. KIRKPATRICK, DONALD F. McHENRY, RODNEY W. NICHOLS, FELIX ROHATYN, ELISABETH SIFTON, THEODORE C. SORENSEN, PAUL WOLFOWITZ

MANUSCRIPTS SHOULD BE SENT TO: 58 East 68th Street, New York, NY 10021. The Editors will consider all manuscripts received, but assume no responsibility regarding them, and will only return materials accompanied by appropriate postage. Facsimiles will not be accepted as final submissions.

SUBSCRIPTIONS: Price for subscriptions, U.S., $44.00, Canada $54.00, other countries via air $79.00 per year. To subscribe, write *Foreign Affairs*, P.O. Box 420235, Palm Coast, FL 32142-0235. To resolve subscription problems, call (800) 829-5539.

Replacement copies are available to subscribers at no charge until the next issue is published. Thereafter, back issues are $10.00 each. GST number R127686483.

ADVERTISING: For rates and schedules contact the Advertising Manager, (212) 734-0400.

Foreign Affairs is a member of The Leadership Network. Contact Kiki Paris, Fox Associates, New York, NY, (212) 725-2106. FAX: (212) 779-1928.

Foreign Affairs is a member of the Audit Bureau of Circulations and the Magazine Publishers of America.

REPRINTS AND PERMISSIONS: Write *Foreign Affairs*, Reader Services, 58 East 68th Street, New York, NY 10021. FAX: (212) 861-2759.

PRINTED IN THE UNITED STATES OF AMERICA

Foreign Affairs is published six times annually by the Council on Foreign Relations, Inc.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Comments

The isolationist impulse has risen from the grave.

Back to the Womb? *Arthur Schlesinger, Jr.* 2

THE DECLINE OF THE DOLLAR

Still the Lingua Franca *Jeffrey A. Frankel* 9
Economic Cocaine *W. L. Givens* 17
The Fall of the Dollar Order *Diane B. Kunz* 22

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Back to the Womb?

Isolationism's Renewed Threat

Arthur Schlesinger, Jr.

American isolationism is an ambiguous concept. The United States has never been isolationist with regard to commerce. Our merchant vessels roamed the seven seas from the first days of independence. Nor has the United States been isolationist with regard to culture. Our writers, artists, scholars, missionaries, and tourists have ever wandered eagerly about the planet. But through most of its history, the republic has been isolationist with regard to foreign policy. From the start, Americans sought to safeguard their daring new adventure in government by shunning foreign entanglements and quarrels. George Washington admonished his countrymen to "steer clear of permanent alliances," and Thomas Jefferson warned them against "entangling alliances."

Only a direct threat to national security could justify entry into foreign wars. The military domination of Europe by a single power has always been considered such a threat. "It cannot be to our interest," Jefferson observed when Napoleon bestrode the continent, "that all Europe should be reduced to a single monarchy." America would be forever in danger, he said, should "the whole force of Europe [be] wielded by a single hand." But between Napoleon and the kaiser, no such threat arose, and Americans became settled in their determination to avoid ensnarement in the corrupt and corrupting world. Isolationism, in this political sense, was national policy.

Then World War I revived the Jeffersonian warning. Once again, as in the time of Napoleon, the force of Europe might have been wielded by a single hand. A balance of power in Europe served American interests as it had served British ones. The United States entered the Great War in its own national interest. But for Woodrow Wilson, national interest was not enough to excuse the sacrifice and horror of war. His need for a loftier justification led him to offer his country and the world a strikingly bold American vision.

The position of the United States had changed since the days of the founding

---

Arthur Schlesinger, Jr., is Professor Emeritus in the Humanities at the Graduate School and University Center, the City University of New York. This article is drawn from his George W. Ball Lecture, delivered at Princeton University in April.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

fathers. Where Washington and Jefferson had seen independence, Wilson saw interdependence. His aim was to replace the war-breeding alliance system and the bad old balance of power with a "community of power" embodied in a universal League of Nations. The establishment of the League, Wilson said, promised a peaceful future. Should this promise not be kept, Wilson warned in Omaha in September 1919, "I can predict with absolute certainty that within another generation there will be another world war."

For a glorious moment, Wilson was the world's prophet of peace. No other American president—not Lincoln, not F.D.R., not J.F.K., not Reagan—has ever enjoyed the international acclaim that engulfed Wilson. But Wilson was a prophet without much honor in his own country. His vision of a community of power implied a world of law. It rested on the collective prevention and punishment of aggression. Article X of the league covenant imposed on member nations the "obligation" to "preserve against external aggression the territorial integrity and existing political independence of all members of the league." This meant, or seemed to mean, that American troops might be sent into combat not just in defense of the United States but in defense of world order. U.S. soldiers would have to kill and die for what many would regard as an abstraction and do so when the life of their own nation was not in danger.

The commitment of troops to combat became the perennial obstacle to American acceptance of the Wilsonian dream. It is a *political* obstacle: how to explain to the American people why their husbands, fathers, brothers, or sons should die in conflicts in remote lands where the local outcome makes no direct difference to the United States? And it is a *constitutional* obstacle: how to reconcile the provision in the constitution giving Congress exclusive power to declare war with the dispatch of American troops into hostilities at the behest of a collective security organization?

Wilson's fight for the League of Nations foundered in the Senate on these obstacles. So America, after the two-year Wilsonian internationalist binge, reverted to familiar and soothing isolationism. Disenchantment over the Great War accelerated the return to the womb. Revisionist historians portrayed American entry into the war as a disastrous mistake brought about by sinister forces—international bankers, munitions makers, British propagandists—and by Wilsonian deceptions and delusions. Novelists and playwrights depicted the sacrifice of war as meaningless. The onset of the Great Depression further confirmed the isolationist impulse.

By the early 1930s, even Wilsonians abandoned the League as a lost cause. Isolationism set the terms of the foreign policy debate. Franklin D. Roosevelt had no illusions about the threats to peace posed by Nazi Germany and imperial Japan. Although he was a mighty domestic president, he could not, for all his popularity and all his wiles, control an isolationist Congress when it came to foreign policy. Congress rejected American membership in the World Court. It passed rigid neutrality legislation that, by denying the president authority to discriminate between aggressor and victim, nullified any American role in restraining aggression. In sum, it put American foreign policy in a straitjacket during the critical years before World War II.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

I refer to this history to illustrate the continuing strength of the isolationist faith. Roosevelt meanwhile began a campaign of popular education to awaken the nation to international dangers. In 1939, the outbreak of war in Europe fulfilled Wilson's Omaha prediction and justified Roosevelt's warning. But it did not destroy isolationism. Rather, it ushered in the most savage national debate of my lifetime—more savage than the debate over communism in the late 1940s, more savage than the debate over McCarthyism in the early 1950s, more savage than the debate over Vietnam in the 1960s. The debate between interventionists and isolationists in 1940-41 had an inner fury that tore apart families, friends, churches, universities, and political parties. As late as August 1941, the extension of the draft passed the House by only a single vote.

Pearl Harbor settled that particular debate. But in vindicating internationalism, it did not vanquish isolationism. In the 1942 congressional election, despite a major campaign by internationalists, only 5 of 115 legislators with isolationist records were beaten. The predominantly isolationist Republicans gained 44 seats in the House and 9 in the Senate—their best performance in years. Secretary of State Cordell Hull told Vice President Henry Wallace that "the country was going in exactly the same steps it followed in 1918."

ARTICLE X

For Roosevelt, the critical task in 1943-45, beyond winning the war, was to commit the United States to postwar international structures before peace could return the nation to its old habits. "Anybody who thinks that isolationism is dead in this country is crazy," F.D.R. said privately. "As soon as this war is over, it may well be stronger than ever."

So he moved methodically to prepare the American people for a continuing world role. By the end of 1944, F.D.R. had organized a series of conferences setting up international machinery to deal with the postwar world. These conferences, held mostly at American initiative and dominated mostly by American agendas, came up with postwar blueprints for international organization (Dumbarton Oaks); international finance, trade, and development (Bretton Woods); food and agriculture (Hot Springs); civil aviation (Chicago); and relief and reconstruction (Washington).

Above all, F.D.R. saw the United Nations, in the words of Charles E. Bohlen, as "the only device that could keep the United States from slipping back into isolationism." He was determined to put the United Nations in business while the war was still on and the American people were still in an internationalist mood; hence the founding conference in San Francisco, which took place after his death but before victory. And, as Winston Churchill emphasized, the new international organization "will not shrink from establishing its will against the evil-doer or evil-planner in good time and *by force of arms*" (italics mine).

Once again, there arose the Article X question that had so bedeviled Wilson. Could the new United Nations on its own order American troops into war in defense of world order and the peace system? Washington's veto in the Security Council ensured that U.S. soldiers could not be sent into combat over a president's objection. But if a president favored U.S. participation in a U.N. collective security

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

action, must he go to Congress for specific authorization? Or could the U.N. Charter supersede the U.S. Constitution?

The U.N. Participation Act of 1945 came up with an ingenious solution. It authorized the United States to commit limited force through congressionally approved special agreements as provided for in Article 43 of the U.N. Charter. Presidents could not enter into such agreements on their own. If more force was required than the agreement specified, the president must return to Congress for further authorization. This formula offered a convincing way to reconcile the charter and the Constitution. Unfortunately, the Article 43 special agreement procedure soon withered on the vine. When Harry S Truman sent troops into Korea five years later, he sought neither an Article 43 agreement nor a congressional joint resolution, thereby setting the precedent that persuaded several successors that presidents possess the inherent power to go to war when they choose.

At the same time, the Cold War aborted the resurgence of isolationism so much feared by Roosevelt and Hull. Within a few years, the Truman Doctrine, the Marshall Plan, NATO, other security pacts, and overseas troop deployments bound the United States to the outside world in a way isolationists, in their most pessimistic moments, could hardly have envisaged. In two hot wars fought on the mainland of East Asia under the sanction of the Cold War, the United States lost nearly 100,000 people. Even the traditionally isolationist Republican Party joined in support of the United Nations and collective action. At last, it seemed, Americans had made the great turning and would forever after accept collective responsibilities. The age of American isolationism, it was supposed, was finally over.

In retrospect, that seems an illusion. It is now surely clear that the upsurge in American internationalism during the Cold War was a reaction to what was seen as the direct and urgent Soviet threat to the security of the United States. It is to Joseph Stalin that Americans owe the 40-year suppression of the isolationist impulse. The collapse of the Soviet threat faces us today with the prospect that haunted Roosevelt half a century ago—the return to the womb in American foreign policy.

This suggestion requires immediate qualification. The United States will never—unless Republican presidential candidate Pat Buchanan has his way—return to the classical isolationism of no "entangling alliances." It will continue to accept international political, economic, and military commitments unprecedented in its history. It will even enlarge some, as in the curious mania to expand NATO, which would commit U.S. forces to the defense of Eastern Europe from, presumably, the menace of a Russian army that cannot even beat Chechnya. But such enlargement hinges on the assumption that other nations will do as we tell them. The isolationist impulse has risen from the grave, and it has taken the new form of unilateralism.

THE REPUBLICAN REJECTION

The Clinton administration began by basing its foreign policy on the premise that the United States could not solve the world's troubles all by itself. "Many of our most important objectives," Secretary of State Warren Christopher has said, "cannot be achieved without the cooperation of others." The key to the future, in the Clin-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

tonian view, was collective action through the building of international institutions and through multilateral diplomacy in the spirit of Wilson and F.D.R.

But as the Soviet threat faded away, the incentives for international collaboration faded away too. The Republican capture of Congress last year gave unilateralism new force and momentum. In a perhaps ill-judged attempt at conciliation, President Clinton issued Presidential Directive 25, which restricted U.S. participation in collective security operations and declared that "the United States does not support a standing U.N. Army, nor will we earmark specific U.S. military units for participation in U.N. operations." Predictably, this retreat failed to appease House Speaker Newt Gingrich, who promptly accused Clinton of still cherishing the "multinational fantasy" and of a continued desire "to subordinate the United States to the United Nations." Nor did it appease Senate Majority Leader Robert Dole, who argued that international organizations too often "reflect a consensus that opposes American interests or does not reflect American principles and ideals."

The House has already passed a Gingrich-backed bill with the Orwellian title of the National Security Revitalization Act. This bill would cut U.S. financial support for current U.N. peacekeeping operations by more than $1 billion and limit the president's ability to approve new peacekeeping missions. The effect, should the bill be enacted into law, would be to eviscerate the American role in collective security.

For its part, the Senate has under consideration Dole's Peace Powers Act, which would amend the U.N. Participation Act of 1945 to give Congress a statutory role in the relationship between the United States and the United Nations. This bill, Dole tells us, "imposes significant new limits on peacekeeping policies which have jeopardized American interests, squandered American resources—and cost lives." Among other things, the Dole bill would generally forbid U.S. troops to serve under foreign commanders and, in the words of *The Washington Post*, "would make it difficult if not impossible for the president to commit U.S. troops to new or expanded U.N. operations or even continue support for ongoing activities." "The American people," Dole says, "will not tolerate American casualties for irresponsible internationalism."

Sir Nicholas Henderson, the distinguished former British ambassador to Washington, characterizes the present situation as "the rejection by the Republicans of the main plank of U.S. foreign policy for the last 50 years." And it is not as if America is at present deeply involved in collective security. The United States stands 20th on the list of nations making troop contributions to U.N. operations, well behind such world powers as Bangladesh, Ghana, and Nepal. Jordan, for example, with a population of less than two percent of the United States, is contributing more than three times as many troops to U.N. peacekeeping.

In foreign aid, despite the popular impression that it is a major charge on the U.S. budget, the Organization for Economic Cooperation and Development recently reported that the United States, once the world's top aid donor, has cut back its allocation today to a mere 0.15 percent of its gross domestic product,

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

placing it by that measure last among the 21 industrial nations. If the Gingrich Congress has its way, foreign aid will be cut still further. And the new mood has already forced the administration to abandon its intention to rejoin the reformed U.N. Educational, Scientific, and Cultural Organization.

Nor can it be said that this recoil from collective security misrepresents American popular sentiment. The latest public opinion survey by the Chicago Council on Foreign Relations and the Gallup Organization shows that, while Americans are still ready to endorse euphonious generalities in support of internationalism, there is a marked drop-off when it comes to committing not just words but money and lives. Defending the security of American allies, rated very important by 61 percent of the public in 1990, fell to 41 percent in the most recent survey. Public support for the protection of weaker nations against foreign aggression fell from 57 to 24 percent. There was a 24 percent decline in support for the promotion of human rights and a 19 percent decline in support for efforts to improve living standards in underdeveloped countries.

This wave of neo-isolationism draws strength in part from the understandable desire to concentrate on improving things at home—a desire justified by the neglect of domestic problems during the Reagan-Bush years. The neo-isolationist enthusiasm also results from waning popular confidence in the United Nations, its bureaucracy, its competence, and its peacekeeping skills. And it draws strength from the recoil against all-out internationalists, who would set the nation on a crusade to establish human rights and democracy.

Neo-isolationism gains further support as America—and indeed all nations—confronts the ultimate price of collective security. For the essence of collective security remains, as Churchill said, the readiness to act against evildoers "by force of arms." Denied military enforcement, and with economic sanctions of limited effect, the international community's effort to restrain aggressors becomes hortatory.

THE NEO-ISOLATIONIST IMPULSE

Are Americans today prepared to take a major collective security role in enforcing the peace system? The U.N. Participation Act of 1945 provided a way to overcome the constitutional obstacle, but no president has gone down the special agreement path, and the old struggle between presidents and their Congresses remains. This is a political battle fought in constitutional terms, and the political obstacle is more potent than ever. How to persuade the housewife in Xenia, Ohio, that her husband, brother, or son should die in Bosnia or Somalia or some other place where vital U.S. interests are not involved? Nor is it just the Xenia housewife who must be persuaded. How many stalwart internationalists in the Council on Foreign Relations would send their own sons to die in Bosnia or Somalia?

Dying for world order when there is no concrete threat to one's own nation is a hard argument to make. For understandable reasons, our leaders are not making it. We have a professional army made up of men and women who volunteered for the job; and the job, alas, may include fighting, killing, and dying. But let a few American soldiers get killed, and the congressional and popular de-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

mand for withdrawal becomes almost irresistible. Nor is the United States alone in this reaction. When two French soldiers were killed in Sarajevo in April, the French government, on the eve of its presidential election, threatened to withdraw its 4,350 peacekeeping troops from Bosnia. Terrorists recognize this vulnerability of democracies and know now how a couple of accurate snipers can drive peacekeeping forces from their land.

Surely this flinching from military enforcement calls for a reexamination of the theory of collective security. Despite two grievous hot wars, a draining Cold War, and a multitude of smaller conflicts, the Wilsonian vision is as far from realization today as it was three-quarters of a century ago. In the United States, neoisolationism promises to prevent the most powerful nation on the planet from playing any role in enforcing the peace system. If we refuse a role, we cannot expect smaller, weaker, and poorer nations to ensure world order for us. We are not going to achieve a new world order without paying for it in blood as well as in words and money.

Perhaps our leaders should put the question to the people: what do we want the United Nations to be? Do we want it to avert more killing fields around the planet? Or do we want it to dwindle into impotence, leaving the world to the anarchy of nation-states?

Perhaps we might reduce the constitutional and political obstacles to a collective security role by reviving the Article 43 special agreements and asking members of the armed forces to volunteer for consequent U.N. assignments. Or perhaps we might consider the proposal recently made by that distinguished international civil servant Sir Brian Urquhart for a U.N. volunteer army, a foreign legion recruited from idealists, adventurers, and mercenaries that could serve the Security Council as a rapid deployment force.

If we cannot find ways of implementing collective security, we must be realistic about the alternative: a chaotic, violent, and ever-more dangerous planet. Maybe the costs of military enforcement are too great. National interest narrowly construed may be the safer rule in an anarchic world. But let us recognize, as we return to the womb, that we are surrendering a magnificent dream.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Still the Lingua Franca

The Exaggerated Death of the Dollar

Jeffrey A. Frankel

Reports of the dollar's death have been greatly exaggerated. It is of course true that the value of the U.S. currency has fallen against the Japanese yen and Deutsche mark recently. It is also true that some measures of the dollar's use as an international currency show a decline. These are long-running trends, however. There is little evidence so far of an abrupt acceleration or tipping in the use of the dollar. In particular, and contrary to widespread belief, the dollar's standing as a reserve currency has actually increased in the 1990s. Furthermore, there is little likelihood that some other currency will supplant the dollar as the world's premier reserve currency by 2020. One national currency or another must occupy the number-one position, and there is simply no plausible alternative.

There is a nice analogy with the international use of the English language. Nobody would claim that English is particularly well suited to be the world's lingua franca by virtue of its intrinsic beauty, simplicity, or utility. Yet it is certainly the language in which citizens of different countries most often converse and do business, and increasingly so. One chooses to use a lingua franca, as one chooses a currency, in the belief that it is the one others are most likely to use.

Similarly, it is not that the dollar is ideally suited for the leading role. It has some characteristics that mar its appeal. Most important, the United States is a debtor country with a large deficit and few signs that it is getting its profligacy under control. But an international currency is one that people use because everyone else is doing it. Three of the four determinants of reserve currency status—economic size, developed financial markets, and historical inertia—support the dollar. The fourth factor—confidence in the value of the currency—could in principle disqualify the dollar if the Federal Reserve launched a high-inflation strategy, but that is unlikely to happen.

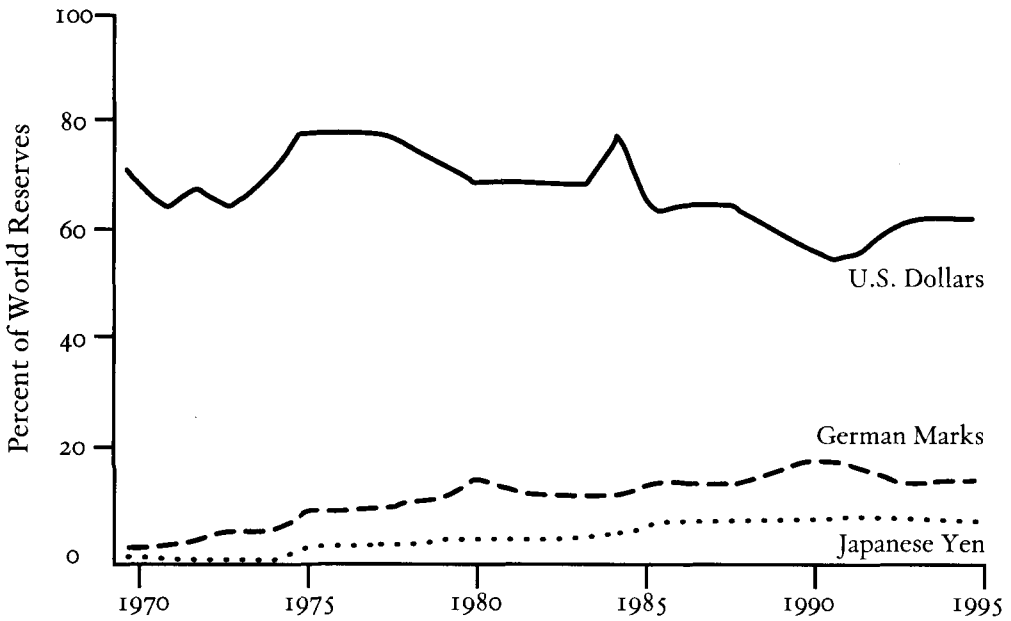
THE BANKROLL

A reserve currency is one in which central banks choose to hold their foreign

JEFFREY A. FRANKEL is a Senior Fellow at the Institute for International Economics and Professor of Economics at the University of California, Berkeley.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Foreign Exchange Reserves
(Composition of Central Banks' Holdings)



Source: IMF Annual Report

exchange reserves. Use as a reserve currency is one important aspect of being an international currency, or a currency used outside its home country. As a percentage of total reserves, the dollar declined gradually in the 1970s and 1980s (see graph). The mark's share increased gradually over the same period. The yen's share also increased, starting from very low levels in the 1970s.

The view that the dollar is losing its reserve currency role has suddenly become popular. The reason may be that pundits have otherwise been hard put to explain the dramatic depreciation of the dollar in 1994-95. Most of the traditional fundamentals would lead one to expect a strengthening dollar: U.S. interest rates have risen since February 1994, and American growth has been stronger, and inflation lower, than expected over this period. Furthermore, political disarray in Washington has been nothing compared to the weakness and disarray in Tokyo. Yet from February 1994 to May 1995 the dollar depreciated 20 percent against the yen and 18 percent against the mark. Financial commentators have seized on the declining reserve currency role of the dollar to explain this mystery. Their case has been buttressed by recent reports from East Asian central banks, whose reserve holdings are now an important share of the world total, that they are shifting out of dollars into yen. The case is also buttressed by the observation that the big movement in the foreign exchange market over the last year has taken place only against the yen and mark (and Swiss franc), the leading rival reserve currencies.

Other measures of international currency use besides reserve holdings are relevant as well. A second measure is the

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

choice by smaller countries to peg their monies to major currencies. Twenty-three countries still peg to the dollar, as compared to 14 for the French franc. Here the mark and the yen are little used. Other measures include the frequency with which currencies are selected for use in imports and exports, international bonds and bank loans, and in foreign exchange trading. The pound sterling and Swiss franc still play major roles in the denomination of bond issues. Overall, however, these measures show the yen and the mark as the two most serious rivals for the dollar. These measures, like the reserve measure, show a gradual long-term decline in the dollar's role, with little indication of dramatic recent acceleration.

The issue of the declining international role of the dollar is distinct from the issue of the declining value of the currency. For example, the strongest evidence of increased use of the yen in East Asia at the expense of the dollar over the last ten years is the rapid rise in the share of debt that emerging market countries owe in yen—most of it to Japan. However, such a shift does not put downward pressure on the yen-dollar exchange rate. If anything, when Japan increases the supply of yen assets in this way it puts downward pressure on the yen and upward pressure on the dollar. These debtors are now lamenting the debt-service cost of their yen obligations and may curtail their use of the yen for borrowing in the future.

Such fine points aside, the popular impression that the decline of the dollar as a reserve currency is correlated with the decline of the value of the dollar on the foreign exchange market is, overall, correct. If central banks shift their reserve holdings out of dollars and into yen or marks, that adds to the downward pressure on the value of the dollar at least as much as when private investors do so. The shift thereby works to reduce the market price of the dollar. Causality can also run in the reverse direction. If a history of dollar depreciation causes a loss of faith in the greenback as a stable store of value and unit of account, importers, exporters, borrowers, and lenders will become more reluctant to use it. This includes central banks: if they expect continued depreciation in the future, they may jump on the bandwagon, particularly the smaller central banks, who are less likely to feel some responsibility for the global system. If they sell dollars, the dollar will depreciate, fulfilling the pessimistic forecasts.

THE PAYOFF

Does it matter whether the dollar retains its role as an international reserve and vehicle currency? There are four advantages for a country of having its currency used internationally. It is certainly more convenient for a country's exporters, importers, borrowers, and lenders to be able to deal in their own currency rather than foreign currencies. The global use of the dollar, as with the global use of the English language, is a natural advantage that American businesspeople tend to take for granted.

There is also more business for the country's banks and other financial institutions. There need be no firm connection between the currency in which banking is conducted and the nationality of the banks (nor between the nationalities of the savers and borrowers and that of the intermediating bank). Nevertheless,

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

it stands to reason that U.S. banks have a comparative advantage at dealing in dollars. Only U.S. banks have access to the safety net provided by U.S. regulatory authorities (access to the discount window, and so forth).

Next is what is called "seigniorage." This is perhaps the most important economic advantage of having other countries hold one's currency. They must give up real goods, services, or capital to pay for the reserves they hold. Just as American Express profits whenever people hold its traveler's checks, which they are willing to do without receiving interest, so the United States profits whenever people in Argentina or Russia hold dollars that do not pay interest. Wherever hyperinflation or social disorder undermine the public's faith in the local currency, the American dollar is the preferred alternative. (The drug trade and other illegal activities are another source of demand, of course.) Federal Reserve Board Governor Lawrence B. Lindsey, in a 1994 speech that reminded Americans of the benefits of international currency status, estimated the cumulative additional Fed currency seigniorage since 1981 to be some $64 billion. This is a growing source of revenue. Another calculation suggests that the United States now derives about $12 billion a year in seigniorage from foreign holdings of U.S. currency, which are conservatively estimated at 60 percent of total dollar currency in circulation.

There is an another (much smaller) component of seigniorage in addition to the currency component. Most foreign central banks and other investors hold their dollars in the form of interest-paying Treasury bills. To the extent the reserve currency role of the dollar allows the U.S. Treasury to pay a lower interest rate on its liabilities than other borrowers must, the difference is a further source of seigniorage.

Finally are the benefits to political power and prestige. These are decidedly nebulous. Nevertheless, the loss of key currency status and the loss of international creditor status have sometimes been associated, along with such non-economic factors as the loss of colonies and military power, in discussions of the historical decline of great powers.

The responsibilities commensurate with Japan's new status as a great economic power that many Americans have urged on Japan in the abstract, will—when realized concretely—increasingly be seen as Japanese gains at U.S. expense. Examples include increased roles for Japan in the United Nations and International Monetary Fund (IMF) in return for Japanese financial contributions, as in connection with the Persian Gulf War and the recent Mexican peso crisis.

THE ODDS

So is a portfolio shift by central banks from dollars to yen to blame for the recent depreciation of the dollar? Contrary to widespread belief, the latest official figures show that the yen's share in reserve holdings fell slightly in 1994. The mark and dollar shares were approximately flat. Relative to 1990 levels, the yen's share is down slightly, the mark's share down more substantially, and the dollar's share is up more than seven percentage points. The recent data show no acceleration in the long-standing downward trend in the dollar's share; if anything, they show the reverse. What is going on?

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

The Bank of Japan and major European central banks in the early 1990s bought up dollars on the foreign exchange market to prevent the value of the dollar from falling against their own currencies as much as it otherwise would. They may not be happy with this situation, but they find it preferable to the alternative. It is the same thing they have done regularly for three decades. Will they continue to do so?

Four major conditions determine whether a currency is an international currency. First is history. There is a strong inertial bias in favor of using whatever currency has been the reserve currency in the past. An exporter, importer, borrower, lender, or currency trader is more likely to use a given currency in his or her transactions if everyone else is doing so. For this reason, the world monetary system tends to center on individual currencies for long periods of time. The pound remained an important international currency long after the United Kingdom lost its position as an economic superpower. Inertia favors the continued central role of the dollar.

Second, the currency of a country that bulks large in the world economy has a natural advantage. The U.S. economy is still the world's largest in terms of output and trade. Alarmist fears notwithstanding, it is unlikely that Japan, a country with half the population, far less land, and far fewer natural resources, will surpass the United States in sheer economic size.

Third, the country's financial markets must be not only free of controls but also deep and well developed. The large financial marketplaces of New York and London clearly benefit the dollar and pound relative to the mark. Tokyo financial markets came a long way in the 1980s but still lag behind New York and London. Many of the steps that the United States urged on the Japanese in the 1984 yen-dollar negotiations were designed to encourage the development of markets in Tokyo in bankers' acceptances, commercial paper, short-term government securities, and hedging instruments. The explicit goal was precisely to facilitate the internationalization of the yen. While such steps have been taken in Japan over the last ten years, these markets remain as yet relatively less developed. It has been argued that a strong central bank and large financial sector to counterbalance the political influence of the trade sector are also important; the point is to be able to resist political pressure in favor of depreciating the currency to help sell goods.

Fourth is confidence in the value of the currency. Even if a key currency were used only as a unit of account, a necessary qualification would be that its value not fluctuate erratically. A key currency is also used to hold assets (firms hold working balances of the currencies in which they invoice, investors hold bonds issued internationally, and central banks hold currency reserves). Here confidence that the value of the currency will be stable, and particularly that it will not be inflated away in the future, is critical.

The monetary authorities in Japan, Germany, and Switzerland in the 1970s established a better track record of low inflation than the United States. Given the good U.S. inflation performance over the last ten years, stability is no longer such a concern as it was formerly. A more important negative for the dollar is that the United States is now a large-scale debtor country. Indeed, 1994 was the first

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

year in which the country actually paid out more in interest, dividends, and repatriated profits to foreigners on their past U.S. investments than it received on its own past investments abroad. Even if the Federal Reserve never succumbs to the temptations or pressures to inflate away the U.S. debt, the continuing U.S. current account deficit is always a possible source of downward pressure on the dollar. Such fears make dollars less attractive.

SMART MONEY

It is a fairly safe call that in the year 2020 the dollar will still be the world's favorite reserve currency. None of the alternative candidates is plausible. If the European Economic and Monetary Union were to come into existence in the latter part of this decade, as many European leaders are planning, then the European currency unit, or whatever the new currency would be called, would be a prime contender to take over a major global role from the declining dollar. According to the terms of the 1991 Maastricht treaty, European leaders must decide whether a majority of members meets the criteria to qualify for the EMU in 1997. It is already clear that very few will satisfy the criteria, perhaps even by the second-chance deadline of 1999. If the leaders try to force the pace, they may end up with a repeat of the foreign exchange market crisis of September 1992. In the meantime, since that crisis the use of the ECU to denominate bonds and loans has stagnated.

The mark has substantial monetary influence in Europe now. At least one currency, the Estonian kroon, pegs to the mark formally, and others such as the Austrian schilling and Dutch guilder virtually do so. German monetary policy is a major determinant of interest rates throughout the continent. But if most Europeans are reluctant to subordinate their countries' monetary policies to the Bundesbank—which is ultimately the stumbling block to the EMU—they are even less likely to countenance an enhanced formal role for the mark in Europe. Countries outside Europe have still less incentive to link to the mark officially. Use of the mark in private transactions remains handicapped by Germany's underdeveloped financial markets.

The yen will probably continue to gain ground, particularly in East Asia. But no country yet pegs its currency to the yen. Indeed, a Pacific country that seeks to stabilize the value of its currency in terms of a basket of currencies, whether tightly or (more often) very loosely, generally gives far more weight to the dollar than the yen. East Asian countries still conduct a great deal of their trade and investment with the United States and the rest of the western hemisphere, and they wish to keep it that way. They will continue to use the dollar as long as the rest of the world does.

The dollar's record of depreciation may motivate central banks to shift some of their reserve holdings to the mark and yen, as they did in the 1970s and 1980s, or to use these currencies in other ways. But neither of these currencies nor the ECU is likely to supplant the dollar as the premier international currency anytime soon.

THE LONG SHOT

The latest data do not support the popular impression that there has been a dramatic acceleration in the decline of the dollar's reserve currency role, at least not up to the end of 1994. Reserve cur-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

rency status is lost over the course of decades as a result of slow growth and deficits. It is not likely to be lost in the course of a few months.

Just as the death of the dollar as a reserve currency has been oversold, so the dollar itself may be oversold in the foreign exchange market. Many investors who lost money on the dollar in 1994 and early 1995 have decided that the dollar can only go down and the yen can only go up. They are wrong. Exchange rates can move up as easily as down. In light of the present 5-point interest differential in favor of the dollar, the yen at some 80 to the dollar is not a good bet.

There is, however, an alternate scenario. Foreign central banks could tire of their ever-increasing holdings of dollars—particularly the newly important central banks of East Asia. They could dump dollars in 1995 and thereby push the value of the currency even lower than its already low levels against the yen and mark.

To make the alternate scenario look especially worrisome, consider the following question: Who is financing the U.S. trade deficit? The international deficit in goods and services reached 1.7 percent of GNP in 1983, which at the time was a record unheard of in the twentieth century. It peaked at 3.4 percent in 1987. A big depreciation in the dollar over the last ten years has helped make American goods much more competitive on world markets. Despite the effects of this newfound competitiveness, however, the deficit in goods and services was a still-hefty 1.6 percent of GDP in 1994. The trade deficits are virtually certain to continue, so long as the U.S. national savings rate remains at the depressed levels where it has been ever since 1982. U.S. net national savings fell to roughly 2 percent of GNP, down from between 7 and 8 percent in the 1950s, 1960s, and 1970s.

These trade deficits must be financed one way or another. The U.S. deficit was initially financed primarily by net banking inflows in 1982-83, then by sales of securities to foreigners in the mid-1980s, beginning primarily with Treasury securities and progressing to corporate bonds and equities, then by sales of companies and real estate in the late 1980s. It was through these sales of assets to foreigners that the United States became the world's largest international debtor. In 1990 private residents in Japan and elsewhere lost their enthusiasm for investing in the United States; the net inflow of private long-term capital sharply diminished. In 1991 transfer payments associated with Operation Desert Storm financed the U.S. trade deficit. In 1992 and 1993 purchases of dollars by the Bank of Japan and other foreign central banks did so.

What happens when the foreign central banks grow weary of increasing their dollar holdings? If foreign private investors do not renew their interest in dollar investing, the currency will have to depreciate yet further.

Such concerns become sharper when one focuses on the reserve holdings of developing countries. As a result of recent balance-of-payments surpluses, these countries' holdings are now almost as big as holdings by industrialized countries. The worry is that the newly important central banks in East Asia and elsewhere are less likely to feel the same civic responsibility for supporting the dollar standard the traditional Group of Ten countries supposedly do.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

There are reports that East Asian central banks, stung by past losses on their dollar holdings, have recently begun to switch their reserves from dollars to yen on a large scale, notwithstanding the IMF numbers. Assuming the reports are true, there are two possible ways of reconciling this conflicting information. The first is that the statistics reported to the IMF are in error. One major omission is known. Taiwan is not included in the statistics because it is not a member of the IMF. Yet its $93.2 billion of reserve holdings is the second-highest in the world after Japan. Taiwan is reported to have been reducing its dollar holdings by about 4 percent in each of the last several years, to about 57 percent of its total at the end of 1994 and 54 percent at the end of March 1995. Even when one makes the appropriate adjustment, however, the worldwide dollar share is still above the 1990 level.

The second possibility is that large shifts out of the dollar have taken place since the end of 1994. Reports of such shifts in early 1995 have come from such countries such as China and Thailand. According to the May 10 *Financial Times,* the central bank of China has raised the non-dollar component of its reserves to 25 percent in early 1995 from 10 percent, where it stood at the end of 1994. This $8.7 billion shift reduces the dollar's share of the world total by another 0.8 percent.

It is quite possible that 1995 figures will show a substantial drop in the dollar share. Central banks would have to dump a lot of dollars in 1995, however, before the reported share fell below the level in 1990.

A return to the gentle downward trend of the 1970s and 1980s would not be surprising. The dollar's long-term decline can be explained by the declining share of the United States in world GDP. The U.S. economy accounted for almost half of gross world product in the aftermath of World War II; it is now down to about one-quarter. This says at least as much about the economic success of other countries as the shortcomings of the United States. The postwar reconstruction of Europe and Japan and, more recently, the industrialization of poor countries in East Asia and elsewhere have been both desirable and to some extent the inevitable result of catch-up. As the debate on competitiveness has taught (*Foreign Affairs,* March/April and July/August 1994), popular concern about the economic standing of the United States relative to its trading partners is useful if and only if it helps focus attention on the structural causes of low productivity growth: the low rate of national savings and the consequent low rates of investment in physical and human capital. The gradually declining international role of the dollar is but one more symptom of these deficiencies.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Economic Cocaine

America's Exchange Rate Addiction

W. L. Givens

The fashionable view among economic pundits and the financial press is that American industry, led by the auto and semiconductor makers, has regained its international competitiveness in recent years. On the contrary, the root cause of virtually all of America's economic problems, from the current run on the dollar to the budget and trade deficits, is the continuing deterioration of the industrial competitiveness of the United States, most notably compared with Japan. The United States has grown dependent on the narcotic effect of dollar devaluation and the dreamy, euphoric (but false) sense of economic well-being derived from it. A massive deterioration of the dollar's value, particularly relative to the yen, has masked the problem of declining competitiveness and functioned as a habitual surrogate for both industrial policy and productivity improvement. It has become as corrosive and addictive as cocaine.

Once this dependency is established, it is likely to persist indefinitely. The trade deficit of the less competitive U.S. economy will grow while its currency dives. Nowhere is this more dramatically demonstrated than in the Japan-U.S. relationship. The dollar has been in a more or less steady decline against the Japanese yen for a quarter century while the trade deficit has continued to expand. In 1970, the exchange rate was $1 to ¥360, and the U.S. trade deficit with Japan was $1.2 billion; by March 1995, the exchange rate had reached $1 to ¥90, and the deficit was $66 billion. Furthermore, despite the perennial spate of rosy predictions, it is quite likely that the dollar will continue to fall and the trade deficit will continue to rise for the indefinite future.

THE PRODUCTIVITY GAP

Compelling evidence of that likelihood can be found, ironically enough, in the declining profitability of the major Japanese industries over the 25 years since 1970. Three industries comprise the preponderance of Japan's bilateral trade (and trade surplus) with the United States: machinery, autos, and electronics. In those industries, average operating profit levels declined from 10-12 percent in 1970 to 1-2 percent in 1994. At first glance, this would

W. L. Givens is a principal in the Marunouchi Group, a Boston- and Tokyo-based consultancy specializing in U.S.-Japan trade and investment.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

WIDEWORLD PHOTOS/ASSOCIATED PRESS

Does he like cheap dollars? Secretary of the Treasury Robert Rubin waves his first personally autographed dollar, May 1995.

suggest that the protracted devaluation of the dollar has pushed Japanese industry to the wall, and that further yen appreciation would put them out of business.

Unfortunately, it is not so simple. The major Japanese industries have demonstrated the ability to drive their costs downward at an average compound rate of 5 percent per year for the past 25 years, while their U.S. counterparts, addicted to currency devaluation, have not. This means that the major Japanese export industries have been able to reduce their yen operating costs by virtually the same degree that the dollar declined against the yen. That their costs declined at a slightly lower rate than the dollar against the yen explains the decline in Japanese operating profits.

A similar analysis of U.S. counterpart industries shows no comparable cost reductions. American operating profits declined slightly in diversified machinery and electronic instruments, which means that costs in current dollars actually rose;[1] in machine tools, the trend line was essentially flat; and while costs declined somewhat in autos and semiconductors, the decline was far less dramatic than that of their Japanese competitors.

The implications are sobering. This means that, contrary to the popular view, American industry has not closed the productivity gap. It has steadily fallen further behind, with that trend masked by a deepening exchange rate addiction. Until this productivity gap is closed, the dollar must continue to decline against the yen if major U.S. industries are to survive, and the U.S. trade deficit will continue to grow. Even in the unlikely event that relative productivity should stabilize at current

[1] All costs cited herein are expressed in current dollars and yen. Net of inflation, cost declines for both U.S. and Japanese producers would be steeper, but the relative rates of decline would be essentially as depicted.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

levels, a dollar appreciation to the level of ¥105 to ¥110 to the dollar would restore Japanese profit margins (and trade competitiveness) to 1970 levels, and a new cycle would begin. The trade deficit, absent political intervention, would skyrocket, and some major American industries would once again have their backs to the wall. The instinctive American reaction to this might well be to assume that there must be some limit to Japanese cost reduction and that, once the Japanese have depleted their bag of tricks for a given industry, their costs will inevitably level off. But "continuous improvement" is practiced more seriously in Japan than in America, and there is no reason to believe that it cannot go on indefinitely.

The exchange rate is driven by the relative productivity gains of American and Japanese producers in the major bilaterally traded industries. The good news is that the long pattern of trade imbalances coupled with a declining dollar can be dampened or reversed at any time by either a reduction in the rate of Japanese cost improvement or a significant increase in that of American industry. Realistically, however, neither of these things will happen in the foreseeable future.

PLAYING FOR KEEPS

The truly important competition in international trade is concentrated in a small number of sectors in which global markets are large, capital intensity is high, and wages are much higher than in other sectors. These sectors include autos (which dwarfs other sectors), industrial machinery, office machines (including computers), aircraft, photographic equipment, consumer electronics, telecommunications equipment, and steel. A national economy with a high proportion of these large, high-wage industries will generate greater prosperity and higher living standards than one that lacks them.

Many American economists and government officials do not believe in industrial policy, and even today are debating whether there is any such thing as competitiveness. The Japanese have taken a different view, channeling both human resources and capital into the critical sectors listed above. Japan has not accepted comparative advantage in these strategically critical industries as a permanent, God-given condition, but rather has seen it as man-made and dynamic, subject to challenge and capable of being shifted from one economy to another through intelligent allocation of resources and hard work. Contrary to their critics' glib assertions, Japanese planners have never engaged in "picking winners and losers." They have simply identified those sectors that will result in a more prosperous economy and gone all-out to win there. As a result, they now dominate the spectrum of high-wage industries that were once the domain of the United States.

Many American economists argue that a trade deficit, however large, is essentially harmless, because when it is incurred, the United States is only exchanging American currency for foreign goods and services, and because the currency has no intrinsic value unless and until it finds its way back and is re-exchanged for American goods and services. What goes around, they say, comes around.

Well, yes and no. When dollars are ultimately redeemed, they need not be

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

exchanged for American exports but can be used to buy other things, some of which may worsen the deficit. These might include American technology and technicians or mass media advertising, marketing, and distribution services to enhance the growth of the imports that initially caused the deficit. Dollars can also be used to play Monopoly with such emotionally charged tokens as U.S. baseball teams, Rockefeller Centers, golf courses, etc. What goes around does not necessarily come around in the same way.

In addition, a chronic trade deficit that is concentrated in the core sectors of our economy means fewer high-quality jobs and lower revenues and profits—in short, a poorer economy. And the true cost cannot be measured by simply calculating the deficit in terms of lost American jobs. The larger cost, by far, results from the loss of U.S. opportunities in Japan, Europe, and other markets. Perhaps most important, a deficit in competitive trade leads to a steady deterioration of the value of one's currency.

DISCOUNTING U.S. ASSETS

In today's global economy, to suggest (as some commentators do) that a weakening currency is a deficit remedy and weapon in the trade war is as Orwellian as asserting that white chips are more valuable than blue ones in a poker game. The value of the U.S. dollar is not some vague, disembodied statistic. It is the hard, ultimate measure of the economic worth of the United States. Everything that Americans own or produce is valued in dollars—homes, savings and investments, real estate, natural resources, skills, and labor. The dollar is, in a sense, the price of a share of America. When it is devalued, the dollar cheapens not just U.S. exports, but the entire economy. A recent *New York Times* article pointed out that, while the stock market is currently reaching new record highs (in rapidly deteriorating dollars), the S&P 500 has actually lost 23 percent of its value in yen terms since mid-1990.

Economists are fond of telling us that dollar devaluation will affect only those Americans who want to travel abroad, drink French wines, or wear Swiss watches, but that is as disingenuous as telling a worker that his pay cut will not matter unless he wants to drive a nice car, take his wife out to dinner, or send his kids to college. A weak dollar has put Japan essentially off-limits to most American tourists. On the other side of the coin, America has become a bargain basement for the Japanese. Tens of thousands of ordinary Japanese workers flock to the United States each year, marveling at the low prices and traveling in a style unaffordable to many middle-class Americans.

The costs of opening and maintaining business offices in Japan have become prohibitive for all but the largest, most profitable American firms; office space, services, and salaries are valued at four or more times comparable U.S. costs in dollar terms. Japanese junior executives and administrative personnel demand, in dollar terms, more than many senior executives earn in the United States. Television advertising is out of the question for most American companies. All of this is particularly hard on the young, high-tech American firms that should enjoy clear competitive advantages in Japan and become the foundation for future U.S.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

markets there. Unable to afford the high cost of market entry in Japan, they often sell or license their technology to potential Japanese competitors, and the downward spiral is perpetuated.

Debasing the dollar has nothing to do with competitiveness. It does nothing to enhance the productivity of American industries or the quality of their products. It simply discounts them while simultaneously discounting everything else Americans own. In that sense, the United States is subsidizing its noncompetitive industries by steadily discounting the entire national asset base. The Japanese, on the other hand, by concentrating single-mindedly on the competitiveness of their export industries, have used that small part of their GNP to enhance their national asset base and enrich their entire society. The contrast in positive and negative leverage between those two approaches is mind boggling.

This profligate form of industrial welfare probably could not be justified even if it had kept U.S. trade in balance, but it has not. At ¥90 to a dollar, the United States is now worth 25 percent of its 1970 value to bearers of Japanese yen and still declining, while our trade deficit with Japan is 54 times greater than in 1970 and still expanding.

As with any addiction, the compelling question is: How does one stop? Unless the quality of life in America has no meaning, the steady deterioration of our industrial competitiveness is the most serious problem we face. It underlies the trade deficit with Japan, the steep decline of the dollar, much of the federal budget deficit, and many of the social and economic ills that beset us. Neither spending cuts nor tax cuts will solve this fundamental problem; reallocating the slices will not expand a shrinking pie. The only way to break the cycle is to reestablish the competitiveness of American industry.

Up to the Challenge?

Over the next two decades, 12 countries with a combined population of 2.7 billion—more than ten times the population of the United States—are expected to account for 40 percent of all export opportunities. The question is whether American industry can match international competitors in satisfying this hunger for goods and services. The most recent study by the Council on Competitiveness of U.S. industries' strengths and weaknesses in 84 cutting-edge technologies showed some positive movement. American business improved its position in 22 categories, but in 11 of them the movement was from the last rank of "losing badly or lost" to "weak." In the other 11, the movement was from "weak" to "competitive," and in no case was it from "competitive" to "strong." Getting off the critical list is welcome news for anyone, but finding out the patient has a pulse is not the same as watching him hop out of bed and run a marathon. To be an export superpower, the U.S. market system must produce over time a competitive commercial base. And our governmental system must remedy a disabled dollar, a results-absent education strategy, and undisciplined deficits.

Adapted from a speech at the Council on Foreign Relations, May 9, 1995, by C. Michael Armstrong, Chairman and CEO of Hughes Electronics Corp. and Chairman of the President's Export Council.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

The Fall of the Dollar Order

The World the United States is Losing

Diane B. Kunz

A sailor embracing his girl in Times Square amid cheering throngs may be the dominant image of America's victory in World War II. Today Times Square is full again, but this time with foreign tourists, who crowd into New York and other American cities, eagerly hunting bargains with their ever-strengthening currencies. During the first quarter of 1995, the dollar plummeted to record lows against the Japanese yen and German mark. A cheaper dollar has brought tourist income to the United States, setting off a boom in the service sector. Yet at the same time the declining dollar has made American manufactures more competitive against foreign goods, both at home and abroad.

All is well, proclaim Clinton administration officials. Treasury Secretary Robert E. Rubin says that "a strong dollar is in the United States' national interest" but suggests no steps to realize his incantation. Declaring himself helpless against the foreign exchange market turmoil, President Bill Clinton asserts that "the ability of government to affect currencies in the short run may be limited." In the end, the administration is indifferent to the slide of the dollar as the premier reserve and trading currency.

American domestic prosperity during the Cold War, as Clinton and Rubin hardly seem to recognize, was based on a triad of factors: American domestic economic policy, American security policy, and American foreign economic policy, in particular the role of the dollar. The synergy among these three elements has brought prosperity at home and security abroad. V-E Day marked the beginning of the dollar era. If the administration does not change its laissez-faire dollar policy and cut the budget deficit, boost savings, and take a hard line on trade, the 50th anniversary of V-E Day will signify its collapse.

THE BATTLE OF THE PLANS

The role of the dollar as the pivotal international currency began after 1945. American policymakers understood the

---

DIANE B. KUNZ is Associate Professor of History at Yale University and is completing a book on American foreign economic policy, which will be published by The Free Press in 1996. A version of this essay appeared in *The Sunday Times* of London.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

need to avoid the political isolation that followed the First World War. They concluded it was equally important to end the economic autarky on which they blamed the Great Depression and the rise of fascism. In their view, the absence of U.S. representatives at the 1920s reparations restructuring conferences and Franklin D. Roosevelt's destruction of the 1933 World Economic Conference signifed an American abdication of international economic responsibility, which shattered the international economic order. This time the United States would play its proper role.

Not surprisingly, since it held all the financial cards, the United States won the battle of the plans at the July 1944 Bretton Woods conference. The dollar, in fixed relation to gold at $35 an ounce, became central to the postwar financial system. As the United States agreed to make gold available for dollars to foreign governments or central banks at this rate, other countries could hold dollars knowing they were as good as gold.

Bretton Woods would have a significant bottom-line impact on the American economy. Throughout the Cold War, the United States could settle its international accounts in dollars rather than gold or other currencies. As French President Charles de Gaulle asserted, the power of the dollar "enabled the United States to be indebted to foreign countries free of charge." Borrowing in other currencies might become attractive but would be more costly because the United States would assume the exchange risk. The dollar's international role shielded the United States from the controls the International Monetary Fund and international lenders placed on sovereign borrowers. For example, when Britain needed funds in 1976, the price devised by the IMF and United States was submission to insulting fiscal and monetary restrictions. So far the United States has continued to borrow with impunity. But as just one of the pack of nations rather than in a class by itself, the United States would face external restrictions on its fiscal freedom it has not seen since the late nineteenth century.

For instance, like other commodities, oil is priced in dollars, giving the United States virtual immunity from the domestic effects of dollar fluctuations. But oil-producing countries will not long agree to the destruction of the purchasing power of their revenues. In 1973 dollar inflation helped bring on the first oil shocks. The Organization of Petroleum Exporting Countries likely will soon demand that oil be priced in a basket of currencies rather than dollars alone. In that case, a reduction of the dollar's exchange rate will automatically raise the American domestic price of oil, bringing increased inflation. Additionally, a weaker dollar would raise interest rates on U.S. government securities and thus expand the relentless federal budget deficit.

Because the United States put the dollar at the center of the western monetary system and also made the largest contributions to various international institutions, it received the lion's share of voting rights in the IMF and World Bank. As a result, the United States grew accustomed to treating multilateral institutions as branches of the federal government. During the Mexican rescue of this year, the Clinton administration virtually ordered the IMF and Bank for International Settlements to tender nearly $28 billion.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

While some European governments were livid, they acquiesced because the United States is still dominant in international finance. The administration's failure to support the dollar, in company with other American autarkic actions, weakens the ties that bind the United States and its allies, diminishing the ability of the United States to create a favorable international climate, politically and economically.

CHEAP MONEY

For 25 years American administrations have undermined the role of the dollar for short-term gain. Richard Nixon, like Bill Clinton, took office aware of the burdens but not the benefits of the dollar's international status. Consumed with creating a domestic economic boom in time for the 1972 election and believing the world would be quintipolar, he jettisoned the Bretton Woods patching devices of his predecessors with a stab at the heart of the international financial order. On August 15, 1971, he closed the gold window, ending the convertibility of the dollar. American gold reserves could no longer support the dollars in circulation. Nixon, for his part, refused to pay the political costs of attracting foreign dollar deposits—higher interest rates and deflationary measures. He also believed that trade and not financial issues would determine the relative position of nations in the future, and he saw no reason to forfeit his domestic well-being to maintain sufficient American gold reserves and preserve Bretton Woods in effect.

Instead, as the United States recorded its first trade deficit since 1940, Nixon and Treasury Secretary John B. Connally blackmailed Western allies into permitting a ten percent dollar devaluation. After three years of intense international financial turmoil (double-digit inflation, oil shocks, the beginning of the Third World debt explosion) the industrial world accepted a managed floating system with the dollar as king. Various attempts to refashion the international financial order, such as the Committee of 20, failed, destroyed by a combination of clashing national perspectives and governmental responses to the oil shocks and recession.

The dollar order survived; in fact, at less cost to Washington. The United States no longer had to make the sacrifices required to maintain gold reserves, back the international system, or fix the price of the dollar. Normally the decision to scuttle a fundamental international commitment is expensive, but not in this case. The continued fact of the Cold War made the United States uniquely important to its allies, giving it additional scope for imperious actions. Because none of its allies would manage the stage for the international financial system, faute de mieux, the United States retained the role at much-reduced cost.

After the financial and military stumbles of Jimmy Carter, Ronald Reagan took office promising a new kind of economics. In practice, supply-side theory hurt the domestic economy, but it fueled a dizzying rise of the dollar. The ever-larger American budget deficits ($400 billion in accumulated deficits for the fiscal years 1982-84 alone) were partly responsible as American borrowing sucked in capital from around the world. At the same time, Federal Reserve Board Chairman Paul A. Volcker raised interest rates to usurious levels. The result was a tidal wave of foreign investment, bringing morning to America. Buoyed by foreign

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

investors, the dollar reached its inflated peak in 1985. Secretary of State George P. Shultz and Treasury Secretary James A. Baker, backed by American allies, orchestrated a series of Group of Seven accords that, between 1985 and 1989, brought the overvalued dollar in line with purchasing power parity. Together with vast improvements in U.S. productivity, this corrective allowed large parts of American industry to regain competitiveness. Because the dollar had been overvalued, the decrease in its international value was relatively cost-free; the surge in American exports more than compensated for the increased price of imports.

But the end of the Cold War meant the end of America's security card. It is unlikely to get economic freebies from its old allies anymore. Achieving victory on a platform of "it's the economy, stupid," Bill Clinton took a narrow view of American economic interests. Despite protests to the contrary, Clinton and his two treasury secretaries, Lloyd M. Bentsen and Robert Rubin, placed a low priority on the dollar's international role. Instead they saw a debilitated dollar as the most politically acceptable way of dealing with the American trade deficit. Administration officials act as if they lived in 1985, when the dollar had indeed risen to economically unjustified levels. With purchasing power parity of Japanese yen estimated at a mere 180 to the dollar, they sat by as the dollar fell to less than half that level.

A STERLING FAILURE

Britain's simultaneous decline as an economic and geopolitical power provides an instructive parallel. Britain's financial strength in the nineteenth and early twentieth century became an arm of foreign policy. The pound tightly bound the empire and commonwealth to London. London's control over international finance gave Britain an informal empire that provided national benefits at a much-reduced cost. Invisible exports shielded Britain from its comparative slippage in manufacturing, which began in the late nineteenth century. Dependent on imported food, British governments derived an extra measure of comfort from a strong pound.

After Britain left the gold standard on September 20, 1931, London organized the sterling area of nations, which conducted their trade in sterling and allowed the Bank of England to hold their foreign reserves. Coupled the following year with the imperial preference tariff system, the sterling area allowed Britian, like the United States after 1971, to gain the benefits of being central to an international financial system at reduced cost. Dominating the sterling area lessened the costs of imperial defense and during World War II enabled Britain to appropriate, without discussion, the equivalent of $13.5 billion for wartime expenses from the empire and commonwealth, a sum roughly equivalent to the entire U.S. expenditure on the Marshall Plan.

But Britain could not afford both social democracy and superpower status. Its attempt to have it all led to the balancing act that characterized British foreign financial policy from 1945 to November 20, 1967, when Prime Minister Harold Wilson devalued the pound for the second time since World War II. The sterling area dissolved, and the pound's international reserve role largely disappeared. Britain's simultaneous departure from areas "east of Suez," all but

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

relinquishing its international geopolitical position, was not accidental. Geopolitical power depends on financial power, each of which supports the other.

America's general indifference to the fate of the dollar is extremely unfortunate. To hang on too long to a currency whose value is beyond one's resources, like the British, is one thing. To ignore the real benefits of controlling the international currency system is another. As Britain's poor economic statistics during the Cold War illustrate, devaluing a currency is not an economic panacea. If anything it can serve as an excuse for poorly run industries to avoid the changes required to survive in an increasingly competitive world.

AND THEN THERE WERE THREE

Twenty years ago Nixon managed to shirk American responsibility for the international financial order yet gain increased U.S. leverage. Cold War security needs gave the United States a dominant say in Western councils and provided successive administrations with large margins for error in their economic dealings. At the same time, no heirs to the American international economic mantle had yet emerged.

Now a real possibility of a tripolar world exists. Japan could lead an Asian bloc, while Germany leads in Europe, and the United States remains only with the Americas. With a growing portion of Pacific Rim countries' debts denominated in yen, holding rapidly depreciating dollars increases the cost of debt payments. The recent tendency among Asian nations to shift their reserves into yen could become self-sustaining: the more countries dump dollars, the lower their value. As the yen area solidifies and the yen becomes the common Pacific currency, Americans will need to sell dollars for yen to conduct business with any Asian nation. Washington will no longer be able to use international demand for dollars for trading and reserve purposes to compensate for its Pacific Rim trade gap, now the locus of the U.S. trade deficit. In 1992, out of an overall trade shortfall of $84.5 billion, $77.2 billion consisted of deficits with Japan, China, and Taiwan. To say that a cheaper dollar will end the trade deficit with the Pacific is to ignore the last five years. A single European currency with Germany as its locomotive (in 1990 Germany's per capita trade surplus was the largest in the world) is scheduled to become a reality before the end of the century, making a European trading and currency bloc likely. The death of the dollar order will drastically increase the price of the American dream while simultaneously shattering American global influence.

But this finale is not yet a foregone conclusion. There are sound economic and political reasons for Asians and Europeans to eschew a yen bloc and rigid European currency area, but the administration has to keep the faith. It has to support the dollar not at its overvalued level of the early 1980s, but at a parity that reflects international economic reality. Safeguarding the dollar's value and bolstering American foreign economic policy is the only guarantee of long-term American domestic prosperity and a crucial factor in establishing international economic and political stability. Without a pronounced shift in Washington's policy, the decline of the dollar could resurrect the ghosts of the 1930s.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Essays

CHRIS STEWART/SABA

Stalled reformer? A Mexico City businessman waits at a crosswalk while campesinos on a protest march pass.

The second half of the 1990s will be far more problematic for global capitalism than the first.

Dutch Tulips and Emerging Markets *Paul Krugman* 28

Latin America the Morning After *Moisés Naím* 45

A Conversation with President Cardoso *James F. Hoge, Jr.* 62

From Exiles to Immigrants *David Rieff* 76

EAST ASIAN SECURITY

The Case for Deep Engagement *Joseph S. Nye, Jr.* 90

The Pentagon's Ossified Strategy *Chalmers Johnson and E. B. Keehn* 103

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Dutch Tulips and Emerging Markets

Paul Krugman

ANOTHER BUBBLE BURSTS

DURING THE first half of the 1990s, both economic and political events in developing countries defied all expectations. Nations that most thought would not regain access to world financial markets for a generation abruptly became favorites of private investors, who plied them with capital inflows on a scale not seen since before World War I. Governments that had spent half a century pursuing statist, protectionist policies suddenly got free market religion. It was, it seemed to many observers, the dawn of a new golden age for global capitalism.

To some extent the simultaneous reversals in government policies and investor sentiment were the result of external factors. Low interest rates in the advanced countries encouraged investors to look again at opportunities in the Third World; the fall of communism not only helped to discredit statist policies everywhere but reassured investors that their assets in the developing world were unlikely to be seized by leftist governments. Still, probably the most important factor in the new look of developing countries was a sea change in the intellectual zeitgeist: the almost universal acceptance, by governments and markets alike, of a new view about what it takes to develop.

This new view has come to be widely known as the "Washington consensus," a phrase coined by John Williamson of the Institute for International Economics. By "Washington" Williamson meant not only the U.S. government, but all those institutions and networks of opinion leaders centered in the world's de facto capital—the Interna-

---

PAUL KRUGMAN is Professor of Economics at Stanford University.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

tional Monetary Fund, World Bank, think tanks, politically sophisticated investment bankers, and worldly finance ministers, all those who meet each other in Washington and collectively define the conventional wisdom of the moment.

Williamson's original definition of the Washington consensus involved ten different aspects of economic policy. One may, however, roughly summarize this consensus, at least as it influenced the beliefs of markets and governments, more simply. It is the belief that Victorian virtue in economic policy—free markets and sound money—is the key to economic development. Liberalize trade, privatize state enterprises, balance the budget, peg the exchange rate, and one will have laid the foundations for an economic takeoff; find a country that has done these things, and there one may confidently expect to realize high returns on investments.

To many people the rise of the Washington consensus seemed to mark a fundamental turning point in world economic affairs. Now that the dead hand of the state was being lifted from Third World economies, now that investors were becoming aware of the huge possibilities for profit in these economies, the world was set for a prolonged period of rapid growth in hitherto poor countries and massive capital flows from North to South. The question was not whether optimistic expectations about growth in the big emerging markets would be fulfilled; it was whether advanced countries would be able to cope with the new competition and take advantage of the opportunities this growth now offered.[1]

And then came the Mexican crisis. The country that was widely regarded as a model for the new regime—a once-protectionist nation that had not only greatly lowered its trade barriers but actually signed a free trade pact with the United States, whose economic policy was run by articulate American-trained technocrats, and which had emerged from seven lean years of debt crisis to attract capital inflows on a scale unimaginable a few years earlier—was once again appeal-

[1] The strategy of promoting U.S. exports and investment in emerging markets remains central to the Clinton administration's economic strategy. In a March 1995 speech, Undersecretary of Commerce Jeffrey Garten declared that "our exports and jobs are dependent on gaining a larger market share in the big emerging markets. No U.S. firm will be a world-class company without substantial involvement in the big emerging markets."

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

ing for emergency loans. But what is the meaning of Mexico's tailspin? Is it merely the product of specific Mexican blunders and political events, or does it signal the unsoundness of the whole emerging market boom of the previous five years?

Many claim that Mexico's problems carry few wider implications. On one side, they argue that a currency crisis says more about short-term monetary management than about long-run development prospects. And to some extent they are clearly right. Currency crises are so similar to one another that they are a favorite topic for economic theorists, who lovingly detail the unchanging logic by which the collision between domestic goals and an unsustainable exchange rate generates a sudden, massive speculative attack. The December 1994 attack on the peso looked a lot like the September 1992 attack on the pound sterling, which looked quite similar to the 1973 and 1971 attacks on the dollar and the 1969 run on gold. So perhaps one should not draw broad conclusions from the fact that a developing country has managed to make the same mistakes that nearly every advanced country has made at some time in the past.

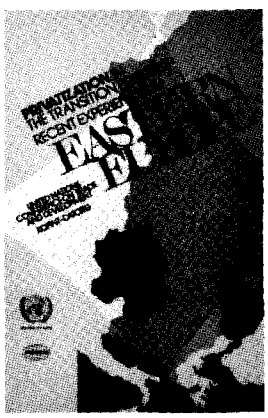
The reign of free trade and sound money was a speculative bubble.

On the other side, defenders of the Washington consensus point to the many uniquely Mexican aspects of the current crisis. Certainly the combination of peasant uprisings, mysterious assassinations, and bizarre fraternal intrigue has no close counterpart anywhere else in the world.

And yet Mexico's crisis is neither a temporary setback nor a purely Mexican affair. Something like that crisis was an accident waiting to happen because the stunning initial success of the Washington consensus was based not on solid achievements, but on excessively optimistic expectations. The point is not that the policy recommendations that Williamson outlined are wrong, but that their efficacy—their ability to turn Argentina into Taiwan overnight—was greatly oversold. Indeed, the five-year reign of the Washington consensus may usefully be thought of as a sort of speculative bubble—one that involved not only the usual economic process by which excessive market optimism can be a temporarily self-fulfilling prophecy, but a more subtle political process through which the common beliefs of policymakers and investors proved mutually reinforcing. Unfortunately, any

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

New Releases from United Nations Publications

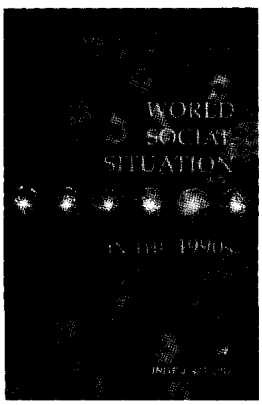


Privatization in the Transition Process: Recent Experiences in Eastern Europe

Privatization has progressed much slower than expected and has proved much more problematic.

This compendium examines with a critical eye the privatization policies and experiences of four countries- Poland, the Czech Republic, Slovakia and Hungary which have advanced furthest towards a market economy. It offers a spectrum of views on the origin and nature of the problems encountered in transition and privatization and their possible solutions. This is an extremely valuable book for academicians, economists and others interested in examining a subject that some feel is still in an "embryonic stage"

E.94.II.D.25 92-1-112359-3 418pp. $35.00



World Social Situation in the 1990s

A comprehensive study that provides the reader with a real understanding of the social forces which have been shaping the world over the last decade. It points out emerging situations and discusses a variety of policies responding to these situations. Presented in three parts, part one discusses income distribution and inequality, employment and poverty. Part two takes a look at human development, basic needs and social services. The emphasis in part three is on emerging social issues and dilemmas, with an analysis of ethnic conflicts and national disintegration. The concluding chapter discusses the profound importance of the new technological advances in electronics, biotechnology and material sciences.

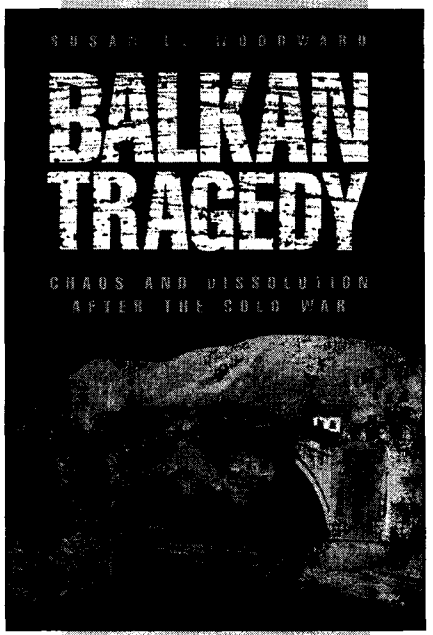
E.94.IV.4 92-1-130161-0 321pp. $19.95

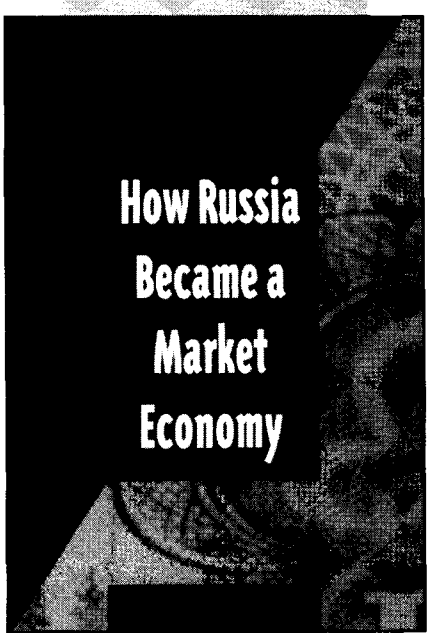
Send orders to:

United Nations Publications, Sales Section, Room DC2-0853, Dept. 274A, New York, N.Y. 10017. Tel. (800) 253-9646, (212) 963-8302, Fax. (212) 963-3489.
Visa, MasterCard and American Express accepted.
Please add 5% of gross ($3.50 minimum) for shipping & handling.

United Nations Publications

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED





NEW BOOKS *from* BROOKINGS

BALKAN TRAGEDY

Chaos and Dissolution after the Cold War

by Susan L. Woodward

Woodward explains the roots of the war in Bosnia, the disbanding of the former Yugoslavia, and the international response to the conflict. On several key points, Woodward disputes commonly held premises. The analysis is based on her firsthand experience before the country's collapse and then during the later stages of the Bosnian war as a member of the UN operation sent to monitor cease-fires and provide humanitarian assistance.

cloth $42.95 / paper $18.95

HOW RUSSIA BECAME A MARKET ECONOMY

by Anders Åslund

"A remarkably perceptive, detailed, and accurate analysis of Russia's economic reforms since the end of communism in 1991. This superb book will immediately become the authoritative account of the period.... Åslund displays the unrivalled knowledge of an insider, the breadth of an historian and leading Russia scholar, and the judicious insight of a valued economic adviser to governments in Central Europe and the former Soviet Union." Jeffrey Sachs, Harvard University

cloth $39.95 / paper $16.95

At bookstores or directly from Brookings
Phone: Toll-free 1-800-275-1447 or (202) 797-6258
Fax: (202) 797-6004 E-Mail: BIBOOKS@brook.edu

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

such self-reinforcing process unfortunately must eventually be faced with a reality check, and if the reality is not as good as the myth, the bubble bursts. For all its special features, the Mexican crisis marks the beginning of the deflation of the Washington consensus. That deflation ensures that the second half of the 1990s will be a far more problematic period for global capitalism than the first.

THE REAL PAYOFF TO REFORM

ECONOMISTS HAVE, of course, long preached the virtues of free markets. The economic case for free trade in particular, while not completely watertight, is far stronger than most people imagine. The logic that says that tariffs and import quotas almost always reduce real income is deep and has survived a century and a half of often vitriolic criticism nearly intact. And experience teaches that governments that imagine or pretend that their interventionist strategies are a sophisticated improvement on free trade nearly always turn out, on closer examination, to be engaged in largely irrational policies—or worse, in policies that are rational only in the sense that they benefit key interest groups at the expense of everyone else.

Yet there is a dirty little secret in international trade analysis. The measurable costs of protectionist policies—the reductions in real income that can be attributed to tariffs and import quotas—are not all that large. The costs of protection, according to the textbook models, come from the misallocation of resources: protectionist economies deploy their capital and labor in industries in which they are relatively inefficient, instead of concentrating on those industries in which they are relatively efficient, exporting those products in exchange for the rest. These costs are very real, but when you try to add them up, they are usually smaller than the rhetoric of free trade would suggest. For example, most estimates of the cost of protection in the United States put it well under one percent of GDP. Even that cost is largely due to the United States' preference for policies, like its sugar import quota, that generate high profits for those foreign suppliers granted access to the U.S. market. Highly protected economies, like most developing countries before the rise of the Washington consensus, suffer more. Still, conventional estimates of the costs of pro-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

tection have rarely exceeded five percent of GDP. That is, the standard estimates suggest that a highly protectionist developing country, by moving to completely free trade, would get a one-time economic boost equal to the growth China achieves every five or six months.

Admittedly, many economists argue that the adverse effects of protection are larger, and thus the growth boost from trade liberalization is greater, than such conventional estimates suggest. Roughly speaking, they have suggested three mechanisms. First, protection reduces competition in the domestic market. The monopoly power that is created for domestic firms that no longer face foreign competition may be reflected either in slack management or, if a small number of firms are trying to secure monopoly positions, in wasteful duplication. Second, protectionist policies—and other policies like interest rate controls—create profits that accrue to whoever is influential enough to receive the appropriate government licenses. In a well-known paper, Anne Krueger, who later became the chief economist at the World Bank, argued that in many developing countries, the resources squandered in pursuit of these profits represent a larger net cost to the economy than the distortion that protectionism causes in the industrial mix.[2] Finally, many people have argued that protectionism discourages innovation and the introduction of new products, thereby having sustained effects on growth that a static estimate misses. The important point about these arguments for large gains from trade liberalization, however, is that they are all fairly speculative; one cannot say as a matter of principle that these effects of protection discourage growth. It is an empirical question.

And the empirical evidence for huge gains from free market policies is, at best, fuzzy. There have been a number of attempts to measure the benefits of free trade by comparing countries. An influential 1987 study by the World Bank classified 41 developing countries as "closed" (protectionist) or "open" and concluded that openness was associated with substantially stronger growth. But such studies have often been critiqued for using subjective criteria in deciding which countries have freer trade; the decision to class South Korea as "open,"

---

[2] Anne Krueger, "The Political Economy of the Rent-Seeking Society," *American Economic Review*, June 1974.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

for example, has raised many doubts. A survey by UCLA's Sebastian Edwards concluded that studies which purport to show that countries with liberal trade regimes systematically grow more rapidly than those with closed markets "have been plagued by empirical and conceptual shortcomings [that have] resulted, in many cases, in unconvincing results whose fragility has been exposed by subsequent work."[3]

There are surely additional gains to reforming economies from domestic liberalization, privatization, and so on. These gains have not been as thoroughly studied as those from trade liberalization. They are, however, conceptually very similar, and there is no reason to expect them to be dramatically larger or to change the picture of real but limited gains from reform.

All this does not mean that trade liberalization is not a good idea. It almost certainly is. Nor does it necessarily mean that the modest conventional estimates of the gains from such liberalization tell the whole story. But it does mean that the widespread belief that moving to free trade and free markets will produce a dramatic acceleration in a developing country's growth represents a leap of faith, rather than a conclusion based on hard evidence.

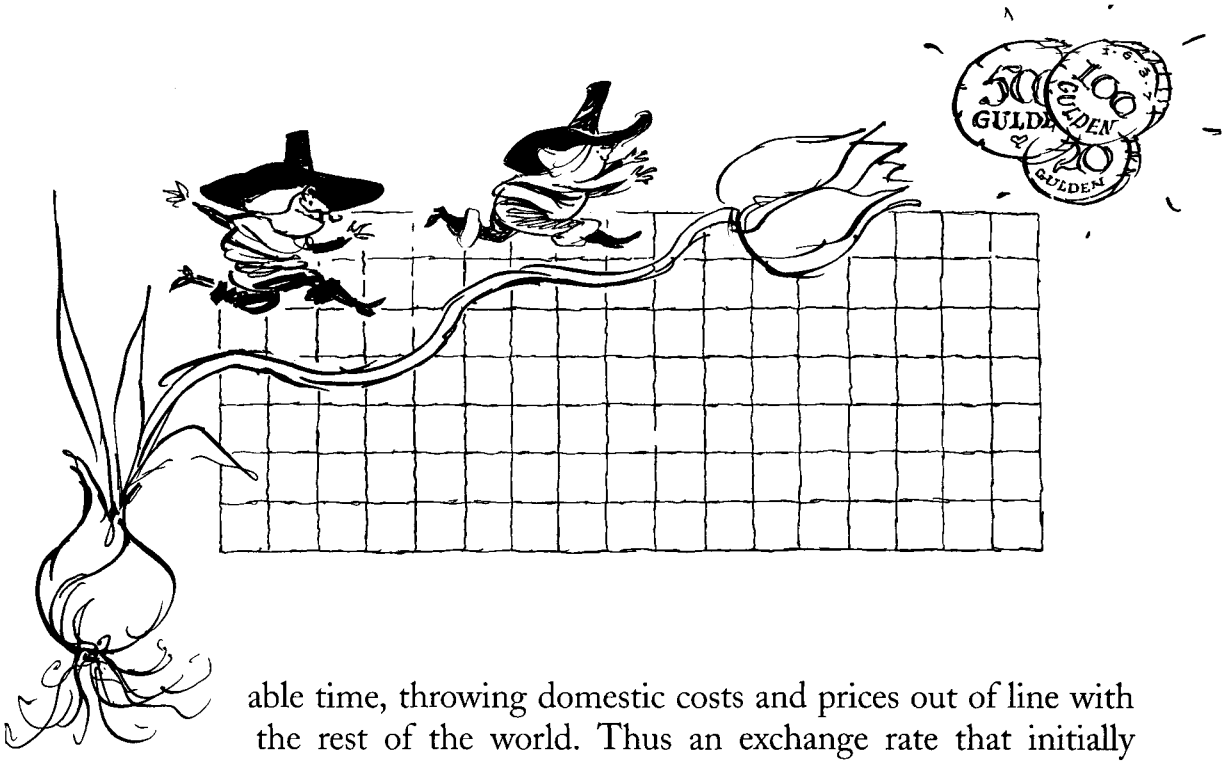
What about the other half of the Washington consensus, the belief in the importance of sound money? Here the case is even weaker.

If standard estimates of the costs of protection are lower than you might expect, such estimates of the cost of inflation—defined as the overall reduction in real income—are so low that they are embarrassing. Of course very high inflation rates—the triple- or quadruple-digit inflations that have, unfortunately, been all too common in Latin American history—seriously disrupt the functioning of a market economy. But it is very difficult to pin down any large gains from a reduction in the inflation rate from, say, 20 percent to 2 percent.

Moreover, the methods used to achieve disinflation in developing countries—above all, the use of a pegged exchange rate as a way to build credibility—have serious costs. A country with an inflationary history that tries to end inflation by establishing a fixed exchange rate almost always finds that the momentum of inflation continues for a consider-

[3] Sebastian Edwards, "Openness, Trade Liberalization, and Growth in Developing Countries," *Journal of Economic Literature*, September 1993.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED



able time, throwing domestic costs and prices out of line with the rest of the world. Thus an exchange rate that initially seemed reasonable usually seems considerably overvalued by the time inflation finally subsides. Furthermore, an exchange rate that is tolerable when introduced may become difficult to sustain when world market conditions change, such as the price of oil, the value of the dollar, and interest rates. Textbook international economics treats the decision about whether to fix a country's exchange rate as a difficult tradeoff, which even countries committed to low inflation often end up resolving on the side of exchange rate flexibility.

Nonetheless, during the first half of the 1990s a number of developing countries adopted rigid exchange rate targets. (The most extreme case was Argentina, which established a supposedly permanent one-for-one exchange rate between the peso and the U.S. dollar). In large part this was a move designed to restore credibility after the uncontrolled inflation of the 1980s. Nonetheless, both governments and markets seem to have convinced themselves that the painful tradeoffs traditionally involved in such a commitment no longer applied.

THE DISMAL CYCLE

IN SUM, then, a cool-headed analysis of the likely effects of the economic reforms undertaken in developing countries in recent years did

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

not and does not seem to justify wild enthusiasm. Trade liberalization and other moves to free up markets are almost surely good things, but the idea that they will generate a growth takeoff represents a hope rather than a well-founded expectation. Bringing down inflation is also a good thing, but doing so by fixing the exchange rate brings a mixture of benefits and costs, with the arguments against as strong as the arguments for. And yet the behavior of both governments and markets during the last five years does not suggest that they took any such measured view. On the contrary, governments eagerly adopted Washington consensus reform packages, while markets enthusiastically poured funds into reforming economies. Why?

Everyone is familiar with the way that a speculative bubble can develop in a financial market. Investors, for whatever reason, come to take a more favorable view of the prospects for some traded asset—Deutsche marks, Japanese stocks, shares in the South Sea Company, tulip futures. This leads to a rise in the asset's price. If investors then interpret this gain as a trend rather than a one-time event, they become still more anxious to buy the asset, leading to a further rise, and so on. In principle, long-sighted investors are supposed to prevent such speculative bubbles by selling assets that have become overpriced or buying them when they have become obviously cheap. Sometimes, however, markets lose sight of the long run, especially when the long run is complex or obscure. Thus speculative bubbles in soybean futures tend to be limited by the common knowledge that a lot more soybeans will be grown if the price gets very high. But the chain of events that must eventually end a speculative bubble in, say, the mark—an overvalued mark reduces German exports, leading to a weak German economy, so the Bundesbank reduces interest rates, making it unattractive to hold mark-denominated assets—is often too long and abstract to seem compelling to investors when the herd is running.

It seems fairly clear that some of the enthusiasm for investing in developing countries in the first half of the 1990s was a classic speculative bubble. A modest recovery in economic prospects from the dismal 1980s led to large capital gains for those few investors who had been willing to

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

put money into Third World stock markets. Their success led other investors to jump in, driving prices up still further. And by 1993 or so "emerging market funds" were being advertised on television and the pages of popular magazines.

At the same time that this self-reinforcing process was under way in the financial markets, a different kind of self-reinforcing process, sociological rather than economic, was taking place in the world of affairs—the endless rounds of meetings, speeches, and exchanges of communiqués that occupy much of the time of economic opinion leaders. Such interlocking social groupings tend at any given time to converge on a conventional wisdom, about economics among many other things. People believe certain stories because everyone important tells them, and people tell those stories because everyone important believes them. Indeed, when a conventional wisdom is at its fullest strength, one's agreement with that conventional wisdom becomes almost a litmus test of one's suitability to be taken seriously.

Anyone who tried, two or three years ago, to express even mild skepticism about the prospects for developing countries knows how difficult it was to make any impression on either business or political leaders. Views contrary to the immense optimism of the time were treated not so much with hostility as bemusement. How could anyone be so silly as to say these gloomy things?[4]

While both a speculative bubble in the financial markets and the standard process whereby influential people rally around a conventional wisdom surely played a role in the astonishing rise of the Washington consensus, there was, however, an additional, distinctive self-reinforcing process that arguably played an even greater role. This was a political economy cycle, in which governments were persuaded to adopt Washington consensus policies because markets so spectacularly rewarded them, and in which markets were willing to supply so much capital because they thought they saw an unstoppable move toward policy reform.

[4] Academic economists with expertise in the macroeconomics of developing countries were issuing clear warnings about excessive euphoria, which Wall Street simply shrugged off, as early as the beginning of 1993. See, in particular, Rudiger Dornbusch, *Stabilization, Debt, and Reform: Policy Analysis for Developing Countries,* Englewood Cliffs: Prentice Hall, 1993, and "Mexico: Stabilization, Reform, and No Growth," *Brookings Papers on Economic Activity,* No. 1, 1994. I gave a speech warning of a peso crisis in Mexico City on March 25, 1993.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

One must begin with a key insight of Dani Rodrik of Columbia University. Rodrik pointed out that economists and international organizations like the World Bank had been arguing for a long time in favor of freer trade in developing countries.[5] The intellectual case for protectionism to promote industrialization, while popular in the 1950s, has been pretty much moribund since the late 1960s. Nonetheless, the stake of established interest groups in the existing system blocked any major move to free trade. When limited liberalization was attempted, it usually ended up being abandoned a few years later. Why did this suddenly change?

At its fullest strength, conventional wisdom becomes a litmus test of one's seriousness.

One seemingly obvious answer is the Third World debt crisis of the 1980s, which made the previous system untenable. But economic crises, especially when they involve the balance of payments, traditionally lead to more protectionism, not less. Why was this case different?

Rodrik's answer was that in the 1990s, advocates of free trade in developing countries were able to link free trade to financial and macroeconomic benefits. If trade liberalization is presented as a detailed microeconomic policy, the industries that stand to lose will be well-informed and vociferous in their opposition, while those who stand to gain will be diffuse and ineffective. What reformers in a number of countries were able to do, however, was to present trade liberalization as part of a package that was presumed to yield large gains to the country as a whole. That is, it was not presented as, "Let's open up imports in these 20 industries, and there will be efficiency gains"; that kind of argument does not work very well in ordinary times. Instead it was, "We have to follow the strategy that everyone serious knows works: free markets—including free trade—and sound money, leading to rapid economic growth."

Calling a set of economic measures a package does not mean that they need in fact be undertaken together. One can bring inflation down without liberalizing trade, and vice versa. But voters do not

[5] Dani Rodrik, "The Rush to Free Trade in the Developing World: Why So Late? Why Now? Will It Last?" in *Voting for Reform: The Politics of Adjustment in New Democracies*, ed. Stephan Haggard and Steven B. Webb, New York: Oxford, 1994.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

usually engage in hypothetical line-item vetoes, asking which elements of an economic program are essential and which can be dropped. If a program of economic stabilization-cum-liberalization seems to work, the political process is easily persuaded that all of the package is essential.

And the point was that such packages did work, and in fact initially did so astonishingly well—but not necessarily because of their fundamental economic merits. Rather, the immediate payoff to Washington consensus reforms was in the sudden improvement in investor confidence.

Mexico is particularly noteworthy. Mexico began a major program of trade liberalization in the late 1980s, with no obvious immediate results in terms of faster economic growth. The turning point came when the country negotiated a debt reduction package, which went into effect in 1990. The debt reduction was intelligently handled, but everyone involved realized that it was fairly small, not nearly enough to make much direct difference to Mexico's growth prospects.

And yet what followed the debt reduction was a transformation of the economic picture. With stunning speed, Mexico's problems seemed to melt away. Real interest rates were 30 to 40 percent before the debt deal, with the payments on internal debt a major source of fiscal pressure; they fell between 5 and 10 percent almost immediately. Mexico had been shut out of international financial markets since 1982; soon after the debt deal, capital inflows resumed on an ever-growing scale. And growth resumed in the long-stagnant economy.

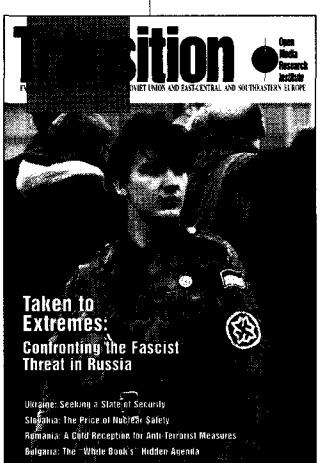
Why did a seemingly modest debt reduction spark such a major change in the economic environment? International investors saw the debt deal as part of a package of reforms that they believed would work. Debt reduction went along with free markets and sound money, free markets and sound money mean prosperity, and so capital flowed into a country that was following the right path.

In the 1990s, advocates of the Washington consensus have not had to make abstruse arguments about the benefits of better resource allocation nor plead with the public to accept short-term pain in the interest of long-run gain. Instead, because the financial markets offered an immediate, generous advance on the presumed payoff from free trade and sound money, it was easy to make a case for doing the

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Nobody Covers Our Part of the World — Like OMRI —

EASTERN EUROPE AND THE FORMER SOVIET UNION — in covering this broad, mercurial area, the Open Media Research Institute fills the gap left by the closure of the Radio Free Europe/Radio Liberty Research Institute. OMRI is a news and analysis organization committed to informing policy makers, analysts, specialists, journalists and others about developments in these regions.


Taken to Extremes:
Confronting the Fascist Threat in Russia
Ukraine: Seeking a State of Security
Slovakia: The Price of Nuclear Safety
Romania: A Cold Reception for Anti-Terrorist Measures
Bulgaria: The "White Book's" Hidden Agenda

OMRI's staff of experts, many of whom came from the RFE/RL Research Institute, use their knowledge and experience to analyze the vast amount of primary source material that OMRI collects and catalogues every day. A growing network of correspondents throughout the region contributes to OMRI's coverage of political events and issues, which is balanced and unbiased.

Publications

OMRI's flagship publication is the weekly journal ***Transition: Events and Issues in the Former Soviet Union and East-Central and Southeastern Europe***. It contains analytical articles, information about key figures in the region, security and economic briefs, book reviews, essays and more.

The ***OMRI Daily Digest*** — available **free** on the Internet — provides concise and accurate news reports based on current sources from the region.

OMRI's publications program will be expanded to include a media monitoring digest, a regional news digest, up-to-date handbooks and others.

Archival Resources and Training

As custodian of the RFE/RL archives, OMRI maintains materials more than five years old in a Budapest facility in cooperation with the Central European University. More recent materials are housed in OMRI's Prague headquarters. The institute's collection of newspapers, periodicals, clippings, *samizdat*, and biographical holdings is open to the public.

Limited internship and training programs will provide instruction for analysts from the region.

OMRI is a nonprofit public service organization with research offices in Prague and home offices in the United States.

Send us this coupon for free information about OMRI

Open Media Research Institute

Mr ☐ Mrs ☐ Ms ☐ Other ☐ .....

Name: .....

Job Title: .....

Company: .....

Address: .....

..... Country: .....

Tel. No.: .....

Fax No.: .....

E-mail address: .....

FA495

☐ I would like a free copy of the *OMRI Daily Digest.*

☐ I would like a sample copy of *Transition.*

☐ Start my subcription to *Transition.*

- ☐ Regular rate ($175/280 DM per year)
- ☐ Student rate ($85/135 DM per year)
  (must submit university certification)

Readers in the former Soviet Union and these countries - Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Poland, Romania, Serbia/Montenegro, Slovakia, and Slovenia -- may apply for reduced rates. Call or fax OMRI offices for details.

Countries of interest: .....

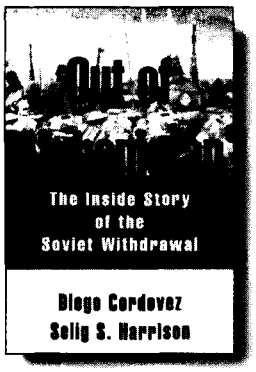
Issues of interest: .....

Prague Office:
Motokov Building
Na Strzi 63
140 62 Prague 4
Czech Republic
Tel: (42 2) 6114 2114
Fax: (42 2) 6114 3323
E-mail: TRANSITION@OMRI.CZ

N. American Office:
888 7th Ave. # 1901
New York, NY 10106
Tel.: (212) 887 0671
Fax: (212) 489 8455

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

NEW FROM OXFORD

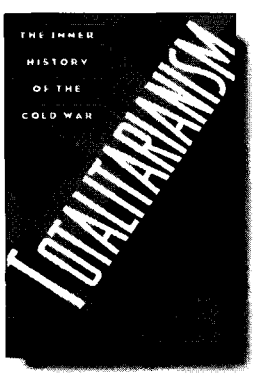


OUT OF AFGHANISTAN

The Inside Story of the Soviet Withdrawal

DIEGO CORDOVEZ and **SELIG S. HARRISON**

"A major contribution to our understanding of a crucial moment in the Cold War—the Soviet intervention and defeat in Afghanistan"—President Jimmy Carter. "Will undoubtedly rank as the definitive account of the negotiations leading up to the Geneva Accords.... A vivid narrative, filled with significant new disclosures, that will be of profound interest to all students of foreign affairs and contemporary history. This is an outstanding contribution to the emerging debate over how and why the cold war ended"—Cyrus Vance. "Will remain for years to come the authoritative source on a critical development in the history of the Cold War"—Charles William Maynes, Editor, *Foreign Policy*. "The most authoritative, complete, and exciting account of the Soviet Union's blundering entry into war in Afghanistan and the decision-making and diplomacy that finally brought Soviet Troops out, with a wealth of new information and much deeper insight than we had before into what really happened"—Don Oberdorfer. **$35.00, 400 pp.**



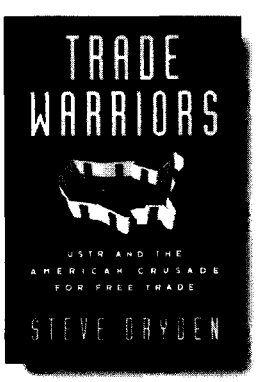
TOTALITARIANISM

The Inner History of the Cold War

ABBOTT GLEASON

"A serious and thoughtful examination of a complex conceptual and politically sensitive issue"—Zbigniew Brzezinski. "An essential, fascinating, and thought-provoking work of intellectual history.... The contemporary equivalent of Hannah Arendt's *The Origins of Totalitarianism*"—*Kirkus Reviews*. "Outstanding.... What gives it special value is that it contains a thoughtful and succinct analysis of the theories of totalitarianism and...deals equally successfully with the practical politics"—Adam Ulam.

$22.95, 288 pp.



TRADE WARRIORS

USTR and the American Crusade for Free Trade

STEVE DRYDEN

"Extraordinarily thorough, lively and informative.... Of interest to everyone who cares about American trade policy, from scholars and journalists to the embattled officials dedicated to making that policy work. What's more, it is a good read!"—I.M. Destler. "Offers fresh and fascinating insight into both the personalities and the politics of the men and women who have made U.S. trade policy since World War II"—Henry Nau. "Elegant, richly detailed and perceptive"—Pietro S. Nivola. "Helps explain America's spectacular failure in coming to grips with Japan's trade challenge"—William J. Holstein, editor of *Business Week*. **$30.00, 452 pp.**

At better bookstores. To charge, 1-800-451-7556 (M-F, 9-5 EST)

OXFORD UNIVERSITY PRESS

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

right thing and brush aside all the usual political objections.

So much for one side of the political-economic cycle. The other side involved the willingness of financial markets to provide lavish rewards for economic reform. In part, of course, the markets believed that such policies would pay off in the long run. But most of the developing countries that suddenly became investor favorites in the 1990s had long histories of disappointed expectations, not just the debt crisis of the 1980s, but track records of abandoned economic reforms reaching back for decades. Why should investors have been so confident that this time the reforms would really stick? Presumably, this time reforms were taking place so extensively, and in so many countries, that investors found it easy to believe that it was a completely new world, that runaway inflation, populist economic policies, exchange controls, and so on were vanishing from the global scene.

But I have just argued, following Rodrik, that the unprecedented depth and breadth of policy reform was largely due to the perception that such reforms brought macroeconomic and financial recovery—a perception driven by the way that financial markets rewarded the reforms! So once again something of a circular logic was at work.

During the first half of the 1990s, a set of mutually reinforcing beliefs and expectations created a mood of euphoria about the prospects for the developing world. Markets poured money into developing countries, encouraged both by the capital gains they had already seen and by the belief that a wave of reform was unstoppable. Governments engaged in unprecedented liberalization, encouraged both by the self-reinforcing conventional wisdom and the undeniable fact that reformers received instant gratification from enthusiastic investors. It was a very happy picture. Why couldn't it continue?

THE REALITY CHECK

From a mere trickle during the 1980s, private capital flows to developing countries soared to about $130 billion in 1993. Relatively little of this money went to those East Asian countries that had already achieved rapid economic growth during the 1980s. Less than 10 percent of the total, for example, went to China, and the four Asian tigers—Singapore, Hong Kong, South Korea, and Taiwan—were all net

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

exporters of capital. Instead, the bulk of the money went to countries that had done poorly in previous years, but whose new commitment to Washington consensus policies was believed to ensure a dramatic turnaround: Latin American countries, plus a few others such as the Philippines and Hungary. How well were these economies doing?

In one respect, the performance of the main recipients of massive capital inflows did represent a break with the past. The new insistence on sound money had, indeed, led to impressive reductions in inflation rates. Between 1987 and 1991, Mexico's inflation rate had averaged 49 percent; in 1994, it was less than 7 percent. In Argentina the contrast was even more spectacular, from an average inflation rate of 609 percent in 1987-91 to a rate of less than 4 percent last year.

Investors were confident in broad reform, in turn driven by financial rewards.

That was the good news. Unfortunately, there was also a substantial amount of disappointing news, on three main fronts. First, while hard currency policies brought down inflation, they did so only gradually. As a result, costs and prices got far out of line with those in the rest of the world. Mexico, for example, allowed the peso to fall only 13 percent between 1990 and the first quarter of 1994, but consumer prices in Mexico nonetheless rose 63 percent over that period, compared with a rise of only 12 percent in the United States. Thus Mexico's real exchange rate—the ratio of Mexican prices in dollars to prices in the United States—rose 28 percent, pricing many Mexican goods out of U.S. markets and fueling an import boom. Argentina's drastic policy, which sought to end a history of extreme inflation by pegging the value of the peso permanently at one dollar, predictably left the country's prices even farther out of line. Between 1990 and early 1991 the Argentine real exchange rate rose 68 percent.

Second, in spite of huge inflows of foreign capital, the real growth in the recipient economies was generally disappointing. Mexico was the biggest disappointment: although capital flows into Mexico reached more than $30 billion in 1993, the country's rate of growth over the 1990-94 period averaged only 2.5 percent, less than population growth. Other countries did better: Argentina, for example, grew at an annual average rate of more than 6 percent after the stabi-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

lization of the peso. But even optimists admitted that this growth had much to do with the extremely depressed state of the economy before the reforms. When an economy has been as thoroughly mismanaged as Argentina's was during the 1980s, a return to political and monetary stability can easily produce a large one-shot rise in output. Across Latin America as a whole, real growth in the period 1990-94 averaged only 3.1 percent per year.

Finally, the benefits of growth, which was in any case barely positive in per capita terms, were also very unevenly distributed. Developing country statistics on both unemployment and income distribution are fairly unreliable, but there is not much question that even as Latin American stock markets were booming, unemployment was rising, and the poor were getting poorer.

In sum, the real economic performance of countries that had recently adopted Washington consensus policies, as opposed to the financial returns they were delivering to international investors or the reception their policies received on the conference circuit, was distinctly disappointing. Whatever the conventional wisdom might have said, the underlying basis for the conviction of both investors and governments that these countries were on the right track was becoming increasingly fragile.

Some kind of crisis of confidence was thus inevitable. It could have come in several different ways. For example, there might have been a purely financial crisis: a loss of confidence in emerging markets as investments, leading to capital flight and only then to a loss of political confidence. Or there could have been an essentially intellectual crisis: the growing evidence that the new policies were not delivering in the way or at the speed that conventional wisdom had expected might have led to soul-searching among the policy elite. But given the way that the Washington consensus had originally come to flourish, it should not be surprising that the crisis, when it came, involved the interaction of economics and politics.

Consider the essentials of the Mexican situation as it began to unravel in 1994—the factors that would surely have provoked a crisis even without the uprisings and assassinations. Despite the popularity of the country among foreign investors, growth had slowed in 1993 to a virtual crawl, creating a considerable rise in unemployment. This

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

growth slowdown was in a direct sense due to the rise in Mexico's real exchange rate after 1990, which discouraged any rapid growth in exports and caused growing demand to be spent primarily on imports rather than domestic goods. More fundamentally, the free market policies had not, at least so far, generated the kind of explosion of productivity, new industries, and exports that reformers hoped for.

Given these economic realities, the Mexican government was faced with a dilemma. If it wanted to get even modest growth going again, it would need to do something to make its industries more cost-competitive—that is, devalue the peso. But to do so, given the emphasis that the government had placed on sound money, would be very damaging to its credibility. In the event, the approach of the presidential election seems to have led the Mexicans neither to devalue nor to accept slow growth, but rather to reflate the economy by loosening up government spending. The result was a loss of credibility even worse than that which would have been produced by an early devaluation. And then the usual logic of currency crisis came into play: because investors thought, with some reason, that the currency might be devalued, they became unwilling to hold peso assets unless offered very high interest rates; and the necessity of paying these high rates, together with the depressing effect of high rates on the economy, increased the pressure on the government to abandon the fixed exchange rate—which made investors even less willing to hold pesos, in a rapid downward spiral familiar to scores of former finance ministers around the world.

The point is that while the details could not have been predicted, something like the Mexican crisis was bound to happen. Without the Chiapas uprising or the assassination of presidential candidate Luis Donaldo Colosio, Mexico might not have hit the wall in December 1994, but it probably would not have gone unscathed through 1995. An early, controlled devaluation might have done less damage than the display of confusion that actually took place, but it would still have done considerable harm to the government's credibility. And even if Mexico had somehow avoided getting into trouble, the disparity between the glittering prizes promised by the Washington consensus and the fairly dreary reality was bound to produce a revolution of falling expectations somewhere along the line.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

AN AGE OF DEFLATED EXPECTATIONS?

BECAUSE THE 1990-95 euphoria about developing countries was so overdrawn, the Mexican crisis is likely to be the trigger that sets the process in reverse. That is, the rest of the decade will probably be a downward cycle of deflating expectations. Markets will no longer pour vast amounts of capital into countries whose leaders espouse free markets and sound money on the assumption that such policies will necessarily produce vigorous growth; they will want to see hard evidence of such growth. This new reluctance will surely be directly self-reinforcing, in that it means that the huge capital gains in emerging market equities will not continue. It will also, more or less directly, lead to a further slowing of growth in those countries, comprising much of Latin America and several outside nations, whose hesitant recovery from the 1980s was driven largely by infusions of foreign capital.

Because reforms will no longer be instantly rewarded by the capital markets, it will be far more difficult to sell such reforms politically. Thus the common assumption that free trade and free market policies will quickly spread around the world is surely wrong. Indeed, there will doubtless be some backsliding, as the perceived failure of Washington consensus policies leads to various attempts either to restore the good old days or to emulate what are perceived as alternative models. Many developing country politicians will surely claim that truly successful development efforts have been based not on free markets and sound money but on clever planning and rationed foreign exchange. At the moment, most developing country governments are still reluctant even to hint at a return to interventionist and nationalist policies because they fear that such hints will be swiftly punished by capital flight. But sooner or later some of them will rediscover the attractions of capital controls. As has happened so many times in the past, some countries will in desperation impose regulations to discourage capital flight. They will discover that while such regulations do raise the cost of doing business, that cost seems minor compared with their newfound ability to contain temporary speculative attacks without imposing punitive interest rates.

And these two trends will surely reinforce each other. As it becomes clear to the markets that reform need not always advance,

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

they will become increasingly reluctant to offer advances on reform. As it becomes clear that such rewards are not available even to the most virtuous of reformers, the willingness to suffer economic pain to placate the markets will erode all the more.

But will the conventional wisdom represented by the Washington consensus be so easily displaced? Before the Mexican crisis, when some warned that the rhetoric about a golden age for global capitalism was excessive, the reply was often that there was no alternative. Communism is dead. The old protectionist development strategies in South Asia and Latin America were unambiguous failures. Even if Victorian virtue does not yield the easy rewards some may have expected, it is still the only plausible course of action left. And such arguments have a point. It is, in fact, probably true that free markets and sound money—if not necessarily fixed exchange rates—are the best policy for developing countries to follow.

But it seems strangely unimaginative to assume that because there are no other popular paradigms for policy currently in circulation, nobody will be able to come up with a rationale for policies that are very much at odds with the Washington consensus. Indeed, there are already audible rumblings about emulating a supposed Asian model. Developing countries should try, some people say, to be like Japan (as they imagine it) rather than America. The intellectual basis for such ideas is far weaker than that for the Washington consensus, but to suppose that bad ideas never flourish is to ignore the lessons of history.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Latin America the Morning After

Moisés Naím

EUPHORIC PERCEPTIONS, FRAGILE REALITIES

BEWILDERED BY the bizarre turn of events in Mexico, novelist Gabriel García Márquez told his colleague Carlos Fuentes that they should throw their books into the sea. "We have been totally defeated by reality," said García Márquez.

If Latin American realities defeat novelists with the magical imagination of García Márquez, foreign investors and policymakers are much easier prey. In mid-1994, the *Financial Times* warned that, "For those that think of Latin America in terms of generals, jungles, and sackfuls of worthless currency, it may be a time to overhaul some myths. Things have changed. South America's soldiers have long since goose-stepped back to the barracks, their power usurped by squadrons of technocrats and battalions of economic miracle-makers." Less than six months later, however, the same newspaper informed its readers that "Mexico's currency crisis has dimmed expectations for economies throughout Latin America.... The crisis and the border war which flared up in January between Peru and Ecuador have raised some fundamental questions in the minds of investors about the wisdom of investment in Latin America. Given the losses they have suffered, some may well retire from the region for good."

MOISÉS NAÍM is a Senior Associate at the Carnegie Endowment for International Peace and Chair of its Latin American programs. Formerly, he was Minister of Industry of Venezuela and Executive Director of the World Bank.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

It is hard to imagine a more drastic and rapid change of perceptions. In the first half of the 1990s, Latin America exhibited signs of an impressive economic transformation. New economic policies eliminated many of the debilitating symptoms that had long crippled the region. While their effects varied among countries, the reforms often dealt swiftly and effectively with high inflation, stagnation, poor international creditworthiness, low exports, currency instability, and chronic capital flight. The adoption of these policies coincided with unique circumstances in international financial markets and led investors to respond enthusiastically to the new opportunities in Latin America. Ironically, however, the massive inflow of foreign money was a mixed blessing. It helped speed up reforms and defrayed their costs, but it also masked some of the deeper sources of Latin America's poor economic performance, lowered the urgency of dealing with them, and created new problems. The success in tackling inflation, the unprecedented growth in trade among neighboring countries, and the euphoria of foreign investors obscured the drag on the region's economic prospects created by high income disparities, low productivity, low international competitiveness, and—most important of all—ineffectual public institutions. Governments easily postponed giving attention to these structural problems; likewise, foreign investors gave them only passing notice. After all, governments could not deal with such woes effectively without first eradicating some of their most visible and debilitating symptoms. It is hard, for example, to increase savings or boost competitiveness in the midst of hyperinflation. It was easy, however, for foreign portfolio investors not to pay too much attention to underlying fundamentals. They operated with short time horizons and enjoyed extraordinary international mobility, which lowered the risks of investing before deeper structural changes were made. Nonetheless, while the reforms have yet to improve the core problems of the region significantly, they did accomplish a striking set of positive changes that, in the wake of the Mexican crisis, may be as easily overlooked as the core problems were in the previous euphoric stage. In thinking about Latin America, gloom can be as disorienting as excessive optimism.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

YOUR INFORMATION SUPERHIGHWAY

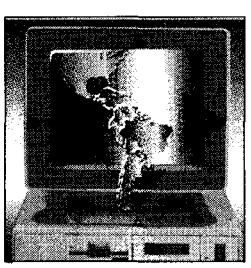
to Latin America and the Caribbean

INFO-SOUTH provides

- unlimited on-line access to stay ahead of the competition;
- information about the political and economic climate, business news, and corporate activity in Latin America and the Caribbean;
- abstracts of articles derived from over 1,000 publications;
- a complimentary on-line *Directory of People, Organizations, and Businesses* for each country;
- full-text document delivery.

Subscription Categories

- Annual Subscription
- Hourly Subscription
- Quarterly Subscription – Individuals only
- INFO-SOUTH is accessible via direct dial-in or Internet. It is also available on Dialog File 466, and on CD-ROM through the National Information Services Corporation, 410-243-0797.



For our subscription rates or more information call toll-free: 1-800-752-9567, or Internet: msgctr@sabio.ir.miami.edu http://www.gate.net/ info-south/ gopher.nsc.miami.edu

INFO-SOUTH
Latin American Information System

Please mail or fax your request today
FAX 305-284-5089.

☐ Yes, I would like more information about **INFO-SOUTH**.

☐ Yes, I would like a free trial subscription code (maximum of 72 hours) for **INFO-SOUTH**.

☐ Yes, I would like to subscribe to **INFO-SOUTH**.

Name _____

Title _____

Company/Organization _____

_____

Address _____

_____

City/State _____

Zip _____ Phone _____

Fax _____

E-mail address _____
(please also include your phone number)

The first 10 annual subscribers will receive a 10% discount.

**University of Miami,
North-South Center, INFO-SOUTH
P.O. Box 248014, Coral Gables,
Florida 33124-3027
TEL (305) 284-4414 FAX (305) 284-5089**

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Now enjoy brilliant college lectures in your home or car with audio and video recordings by *SuperStar Teachers*® - professors most admired by America's students.

The Teaching Company is searching America's leading colleges and universities for SuperStar Teachers' - professors whose lecture courses are rated highest by the students themselves in independent course evaluation guidebooks - and recording their lectures for a wider audience.

Top-rated professors thus identified are being brought to Washington, DC, where their famous lecture courses are delivered before rapt audiences and recorded in audio and video for the enjoyment of present and future generations everywhere.

Each taped lecture series is a condensed eight-lecture version of the professor's one-semester course in the subject.

Audience reactions at the taping sessions have been ecstatic. Written evaluations included comments like, "I didn't want it to end!" and "Had me on the edge of my seat!"

Here are some of the many courses now available for enjoyment in your living room or car, while exercising, commuting, or just taking the time to learn more about yourself and the world around you. For our catalog of over 60 courses, call **1-800-TEACH-12**.

The Old Testament: An Introduction

Robert Oden, Ph.D., President, Kenyon College. Whether treated as theology, literature or history, the Old Testament has influenced the life of virtually every Westerner, no matter what their faith. Dr. Oden skillfully guides you through biblical history from the Garden of Eden to the Exile to the mystery of the Dead Sea Scrolls.
Course No. 333. Audio or Video.

The New Testament: An Introduction

Elizabeth McNamer, Ph.D., Rocky Mountain College. This remarkably accessible course offers an extraordinary opportunity to understand the historical and social forces of theology. You'll learn about the world in which Jesus lived and preached, of Paul and his journeys, and the writings of Mark, Matthew, Luke and John. Dr. McNamer's exhilarating lectures are just as gripping for those whose interest is intellectual as for those for whom it is a subject of faith.
Course No. 316. Audio or Video.

Philosophy and Human Values

Rick Roderick, Ph.D., Professor of Philosophy, National University. A radical critique by a challenging lecturer. Explore the human condition through the works and lives of Socrates, Augustine, Kant, Hegel, Mill, Marx, Nietzsche and Freud. "*It will change your life.*" - Duke Univ. Teacher/ Course Evaluation Book.
Course No. 469. Audio or Video.

Cosmic Questions: Astronomy from Quark to Quasar

Robert P. Kirshner, Ph.D., Professor of Astronomy, Chairman of the Astronomy Department, Harvard University. At the cutting edge of current exploration of the origins, age and future of the universe, Dr. Kirshner's lectures take you on a mind-altering journey from the subatomic to the cosmic in search of modern answers to some of our most ancient questions.
Course No. 145. Audio or Video.

To order, mail coupon below or call

1-800-TEACH-12

(1-800-832-2412)

please refer to Offer Code 693
or FAX 703-912-7756

Economics: An Introduction

Timothy Taylor, University of Minnesota. The goal of this course is to make you economically literate — to make you able to absorb, understand and accept or reject the arguments of economists and others who use economic arguments. We should all possess this kind of literacy because the concerns of economists are central to our lives. What should we make? Who should make it? Who should get what we make? How do economists think about these questions?
Part I, *Microeconomics*, Course No. 521. Audio or Video
Part II, *Macroeconomics*, Course No. 522. Audio or Video
Special Price! Both Parts, Course No 523.
Audio $129.95 Video $199.95 (+$10 s&h)

A Modern Look at Ancient Greek Civilization

Andrew Szegedy-Maszak, Ph.D., Professor of Classics, Wesleyan University. An encompassing view of the art, history, and literature of the astonishing ancient civilization that has had such a profound effect on the development of the entire Western world. Student consensus in campus courses guidebook: "*Superlatives, superlatives, superlatives!*"
Part I, Course No. 841. Audio or Video
Part II, Course No. 842. Audio or Video
Special Price! Both Parts, Course No. 843.
Audio $129.95 Video $199.95 (+$10 s&h)

Power Over People: Classic and Modern Political Theory

Dennis Dalton, Ph.D., Professor of Political Science, Barnard College/Columbia University. The impact on the world of Plato, Aristotle, Machiavelli, Rousseau, Marx, Freud, Hitler, Gandhi. The Columbia-Barnard Course Guide said about Professor Dalton's lectures: "*It's a good idea to arrive one-half hour early to get a seat. We're not joking.*"
Course No. 448. Audio or Video.

The History of Hitler's Empire

Dr. Thomas Childers, Professor of History, University of Pennsylvania. If it happened in Germany, could it happen elsewhere, could it happen here? This course begins with two questions that pose and hold their moral tension for eight lectures: Would you have had the foresight to see what was happening in Germany at the time, and, if you did, would you have had the courage to act?
Course No. 805. Audio or Video.

The Origin of the Modern Mind

Alan Charles Kors, Ph.D., Professor of History, University of Pennsylvania. Foundations laid by great 17th Century thinkers: Bacon, Locke, Descartes, Newton, and Pascal. "*Makes history come alive!*" - student evaluation guidebook.
Course No. 453. Audio or Video.

God and Mankind: Comparative Religions

Robert Oden, Ph.D., President, Kenyon College; formerly Professor and Chair, Department of Religion, Dartmouth College. When Dr. Oden taught this subject at Dartmouth, his course was invariably held at 8 am in the dead of the New Hampshire winter - and was always full!
Course No. 616. Audio or Video.

Comedy, Tragedy, History: The Live Drama and Vital Truth of William Shakespeare

Peter Saccio, Ph.D., Willard Professor of Drama and Oratory, Dartmouth College. An accomplished actor as well as teacher, Dr. Saccio has the rare ability to act out Shakespeare's lines with power and authority, and then to probe beneath the dazzling brilliance for meanings hidden to us by three centuries of changes in language and customs.
Course No. 263. Audio or Video.

Is Anyone Really Normal? Perspectives on Abnormal Psychology.

Drew Westen, Ph.D., Department of Psychiatry, Harvard Medical School; recipient of University of Michigan's Golden Apple Teaching Award. In these fast-paced lectures, Dr. Westen explains, contrasts and integrates the contributions of Freudian analysis and cognitive/behavioral psychology in light of their most rigorous test: explaining and healing mental disorders.
Course No. 658. Audio or Video.

The Teaching Company®
Dept. 693
7405 Alban Station Ct., Suite A107
Springfield, VA 22150

Please send me the following SuperStar Teachers College Lecture Course(s), each consisting of eight to ten 45-minute lectures on audio or video cassettes in handsome storage cases:

VIDEO PRICES: One course, $149.95. Two courses, $129.95 each. Three or more courses, $109.95 each. (plus s&h)

AUDIO PRICES: One course, $89.95. Two courses, $79.95 each. Three or more courses, $69.95 each. (plus s&h)

course #	audio/video	price

$5 per course, shipping & handling

Sales tax, if in VA, 4.5%

TOTAL

❑ Check enclosed:
(to The Teaching Company®)

❑ Charge to my:
❑ VISA ❑ MasterCard ❑ AMEX

Card No. Exp.

Signature

Name (Please Print)

Phone

Mailing Address

City & State

❑ Check here if you're not ordering now but would like a copy of our FREE catalog with additional information on these and over 45 other courses.

"NO-RISK" MONEY-BACK GUARANTEE

Look for our products soon at a store near you.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

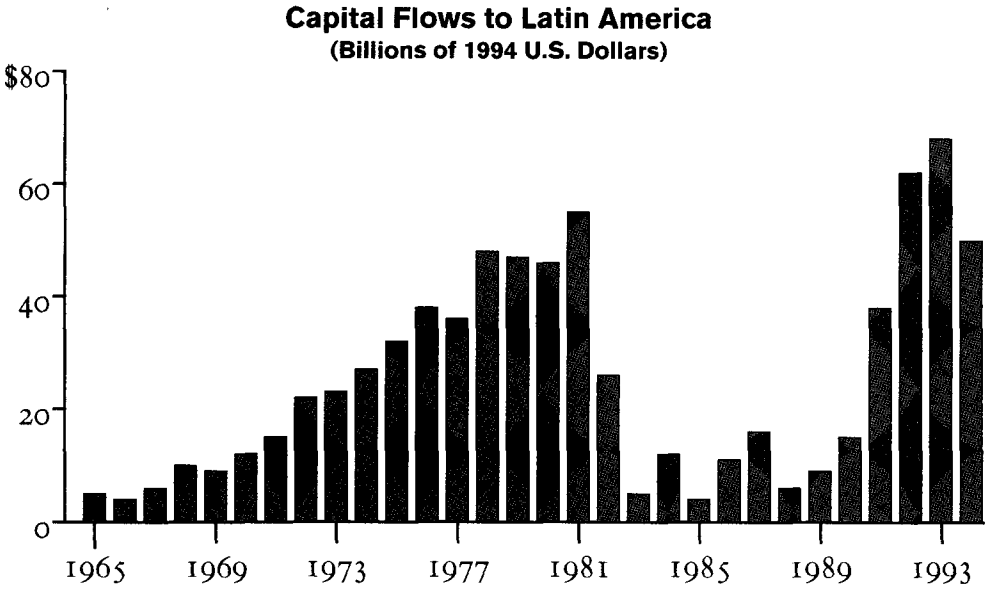
THE EUPHORIC EARLY 1990S

THE POSITIVE and irreversible changes induced by the economic reforms of the early 1990s should not be underestimated. Trade liberalization is forcing Latin American companies to become more efficient. State-owned companies that have been privatized can no longer drain national treasuries. The fiscal situation is radically better. Between 1985 and 1989, prior to the reforms, public expenditures in Latin America exceeded government revenues by about five percent of GDP. In contrast, since 1990—thanks to budget cuts, privatization, and improved tax collection—the region has had its public accounts either near balance or in surplus. As a result, 17 out of 22 countries in Latin America currently have single-digit inflation rates, and average inflation in the region (excluding Brazil, which began an adjustment plan in 1994) dropped from 130 percent in 1989 to 14 percent in 1994.

In another drastic break with the past, the widespread liberalization of trade caused average tariffs to drop from more than 50 percent in the 1980s to the low teens in the mid-1990s. Imports requiring a special government permit and quotas now tend to be the exception rather than the rule. Latin America's trade liberalization was initially adopted unilaterally by each country—that is, instead of negotiating trade concessions from their main trading partners, countries assumed that it was in their self-interest to lower their tariffs and eliminate trade barriers. In the beginning, the main force behind trade liberalization was economic crisis, not regional integration. Dismal economic performance and political change had weakened the business, labor, military, and political coalitions that traditionally supported protectionist policies. Armed with a new worldview and the political capital provided by constituencies willing to swallow bitter medicine in the face of impending economic debacles, new administrations were able to smuggle trade liberalization into their overall macroeconomic stabilization programs.

A virtual free trade zone emerged spontaneously, and trade among neighbors soared, becoming an important force for growth. Argentina and Chile have tripled their trade with one another in the past three years. Brazil and Argentina have done the same, and Brazil is now Argentina's biggest trade partner. On a broader scale, Latin

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED



exports to other Latin destinations have increased by 135 percent between 1986 and 1992. Between 1991 and 1994, trade among the region's 11 largest economies grew by 50 percent.

Freer trade has also spurred an unprecedented wave of cross-border investments. In 1991, Chilean investment in Argentina was less than $100 million; by 1994, it had jumped to $2.7 billion. Brazilian investment in neighboring countries is also on the rise, and private investments between Venezuela and Colombia and between Chile and Peru are at an all-time high. Seizing the opportunity, countries signed integration treaties with their neighbors that sought to lock in and further their newfound economic ties. Latin America is now crisscrossed by 30 free trade agreements that bind together pairs or groups of countries.

But of all Latin America's economic changes, the boom in foreign investment was the most dramatic and the most visible to the outside world. During the 1980s, foreign inflows of capital to Latin America were less than one percent of the region's GDP. In the 1990s, capital inflows increased to six percent of GDP. The flow of total private funds to the region went from $13.4 billion in 1990 to an impressive $57 billion in 1994. Foreign direct investment alone grew by 68 percent to $14 billion in 1991 and reached $22 billion in 1994. Between 1983 and 1989, about $300 million of Latin bonds were issued in international capital markets each year. In 1993 this figure jumped to $27 billion.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

All these changes created favorable conditions for the resumption of economic growth, which had been stagnant throughout the 1980s. Average growth in Latin America between 1985 and 1989 was a scant 1.5 percent. Since 1990, yearly growth has averaged 3.5 percent.

Optimism about Latin America was not based only on dry statistics. Each month and, at times, each week, a positive and often unprecedented event grabbed headlines around the world. The privatization of the state-owned oil or telephone companies that used to be the sacred cows of economic nationalism, the performance of Chile's pension funds, and the scores of Latin American companies joining the New York Stock Exchange all illustrated the region's turnaround.

The crowning event was the U.S. Congress' ratification of the North American Free Trade Agreement in 1993, a plausible first step toward the dream of creating a free trade zone comprising the entire western hemisphere. Shortly after NAFTA's passage, President Clinton called for a hemispheric presidential summit to discuss the expansion of free trade in the hemisphere. The summit convened in Miami in early December 1994. "The so-called lost decade in Latin America is a fading memory," Clinton said in his opening speech. "These reforms are working wonders.... These are remarkable, hopeful times."

Nine days later, the Mexican government devalued the peso, and the country plunged into an economic nosedive from which it will take years to recover. The Mexican crash destabilized currencies and financial markets around the globe. Latin America was not spared. Even Chile, which had impeccable fiscal credentials and enviable economic fundamentals, saw its stock market drop 12 percent in the first quarter of 1995. Brazil and Argentina were prime suspects to be the next Mexico. Euphoric international investors who had been singing the praises of Latin America just weeks earlier felt disenchanted and even betrayed by those who sold them on the region. In Latin America, confusion about the present and fear about the future returned as themes at cabinet meetings and family gatherings.

ANATOMY OF A BOOM

AS SURPRISING as the dramatic swing in the perceptions of international investors about Latin America is, the region's vulnerability

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

to such swings is even more surprising. Latin America's economic performance this decade was shaped as much by changes in the world financial markets as by regional economic reforms. The economic liberalization of Latin America coincided with the accelerating trend of individuals and institutions in industrialized countries buying stocks and bonds instead of depositing their savings in banks. In a related trend, investors began to place an unprecedented proportion of their portfolios outside their home country. In 1993 alone, U.S. investors bought more foreign equities—about $68 billion—than in the whole decade of the 1980s. A portion of these investment portfolios went to the financial markets of countries that had recently opened to foreign investors, offered high interest rates, and had either eliminated or relaxed foreign exchange controls, thus making it easier for investors to move funds in and out of the country. Since 1990, private capital flows to developing countries increased five-fold, driving up the prices of equities and other financial instruments and making emerging markets even more attractive. In 1993, emerging markets' equities had their best performance ever, rising by 64 percent. Hence, soon after the economic reforms throughout the hemisphere, Latin American stock markets became stars in the international financial firmament. Each year between 1989 and 1994, one or more Latin American stock markets ranked among the world's best performers.

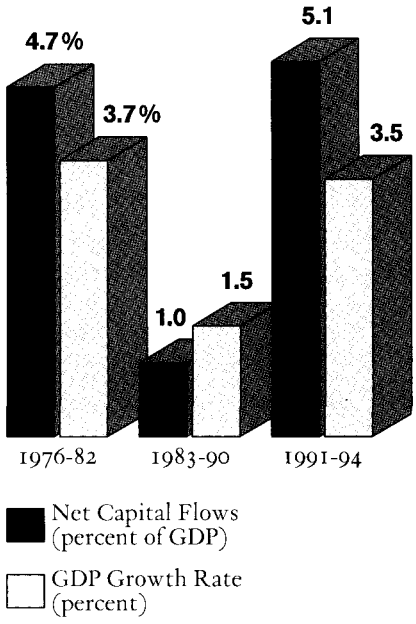
This flood of foreign money into Latin America could not have come at a better time. The liberalization of trade, the resumption of economic growth, and a steep increase in consumption induced a surge of imports that was not offset by exports, which grew at a slower pace. In 1994, for example, exports grew by 9 percent while imports increased by 12 percent. Thus, foreign investment became a powerful economic and political lubricant of economic change in the region. Without the inflows of foreign capital, the adverse consequences of continued trade deficits would have been felt more acutely by the population at large. Exchange rates would have depreciated more often, the drop in inflation might have been slower, and the rate of economic growth would have been lower. In contrast to East Asia, where foreign money was used mostly for investment, in Latin America it was used to finance a major expansion in consumption, which had been severely constrained during the 1980s. Thus, foreign investment greatly helped gov-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

ernments by lowering the political costs of implementing the reforms.

Foreign capital, however, was not a costless lubricant of market reforms. The relative abundance of foreign currency provoked by the massive inflows of foreign investment increased the value of the local currency. This overvaluation of the local money cheapened imports and made exports more expensive, thereby making it even more difficult to correct the trade imbalances of most countries in the region. In the first half of this decade, Latin American currencies appreciated by 24 percent and are currently about 35 percent stronger than they were at their weakest point during the mid-1980s.

Capital Flows and Growth in Latin America



Source: Inter-American Development Bank, "A Macroeconomic Assessment of Latin America," March 1995

Another problem with the capital flowing to the region was its composition. While direct foreign investment in factories, utilities, and mines was boosted by privatization and deregulation, a record-breaking portion of capital flowed in as foreign portfolio investment in stocks and bonds. Portfolio investment is always volatile, and in these days of electronically linked capital markets, it can leave a country literally at the speed of light.

Initially, the boom of foreign investment was widely interpreted as the response of financial markets to the new opportunities opened by the market reforms. This interpretation had to be revised when, in early 1994, the U.S. Federal Reserve began to increase interest rates. The expectation that interest rates in the United States would begin to climb diminished international portfolio investors' appetite for emerging markets' stocks and bonds. That expectation—reaffirmed by actual increases in the interest rate and combined with growing uneasiness about Mexico, the largest beneficiary of investments to emerging markets after China—led to a 14 percent drop in capital flows to Latin America in

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

1994. When Mexico crashed, foreign investors fled emerging markets, wreaking havoc in the countries that had grown too dependent on them.

While Latin American economies have always depended on foreign capital, they recently developed an intense addiction to portfolio investment that made its slowdown especially destabilizing. That addiction was driven by the need to balance growing trade imbalances that led current account deficits to widen to three percent of the region's GDP in 1994 from a pre-reform average of about one percent. Thus, the fortunes of market reforms in Latin America came to be closely correlated to the ebb and flow of international portfolios.

Two other characteristics of Latin America's economic reforms also help explain the euphoria of the early 1990s. First, the initial reforms mostly focused on changing the macroeconomic policy framework, and second, they required the dismantling of many existing public institutions. Both factors made it possible for the reforms to yield tangible macroeconomic results very quickly.

The main priorities of the new policies were to crush inflation, correct macroeconomic distortions, and promote exports. This usually meant eliminating government interference in the setting of prices, exchange rates, interest rates, and the allocation of foreign exchange and credit, as well as deregulation of the economy. It implied massive cuts in public budgets, privatization, and generally shrinking the state.

The reforms were healthy, unprecedented, and politically difficult. Despite their momentous consequences, such changes in the macroeconomic rules of the game are surprisingly simple to execute. Devaluing the currency, freeing prices, or liberalizing imports changes the daily lives of everyone in an immediate and visible way. Yet these market-oriented policies require neither a complex administrative apparatus nor the cumbersome revamping of entire ministries. On the contrary, they often mean the idling of many government agencies in charge of administering government controls. Above all, the success of these macroeconomic reforms in their initial dismantling stage was not dependent on the efficiency and commitment of the region's famously unreliable public bureaucracies. Thus, impressive results in aggregate statistics began to appear very quickly.

One place where they appeared was on the computer screens of money managers in New York, London, and Tokyo. Their screens

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

showed countries that were rich in natural resources, bent on privatizing state-owned enterprises, welcoming foreign investors, and offering some of the highest interest rates in the world. Moreover, their currencies not only were freely convertible but grew stronger by the day as waves of foreign money poured in. This is the stuff of which the dreams of portfolio investors are made—especially of portfolio investors faced with the alternative of making three percent a year in their bank accounts in the United States.

Under these circumstances, it became easy to ignore the realities of the region and just follow the hype from companies selling Latin American securities and the media campaigns of governments boosting their international image. Journalists thrived on stories that showed the amazing contrasts of countries before and after their diet of market reforms. Many fund managers did not care much about the details underlying the region's turnaround. "We went into Latin America not knowing anything about the place," one of them noted after the Mexican crisis. "Now we are leaving without knowing anything about it."

TAKING A DEEPER LOOK

THE LATIN AMERICAN boom of the early 1990s was not just another financial bubble that finally burst once fickle portfolio investors lost interest in the region. The reforms induced important changes, many of them irreversible.

Perhaps as important as the progress in macroeconomic indicators is the shift in attitudes in Latin American policy circles. The need to maintain macroeconomic equilibrium, rid the state of many functions better performed by the private sector, and rely more on exports to propel growth has now become the mantra of many influential social groups throughout the region.

A concrete example of this shift in attitudes was the sharply contrasting ways in which governments in Latin America responded to the Mexican crises of 1982 and 1994. When Mexico defaulted on its international debts in 1982, the flow of external funds to the region suddenly came to an almost complete halt. Latin governments reacted by closing down their economies even more, tightening their

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

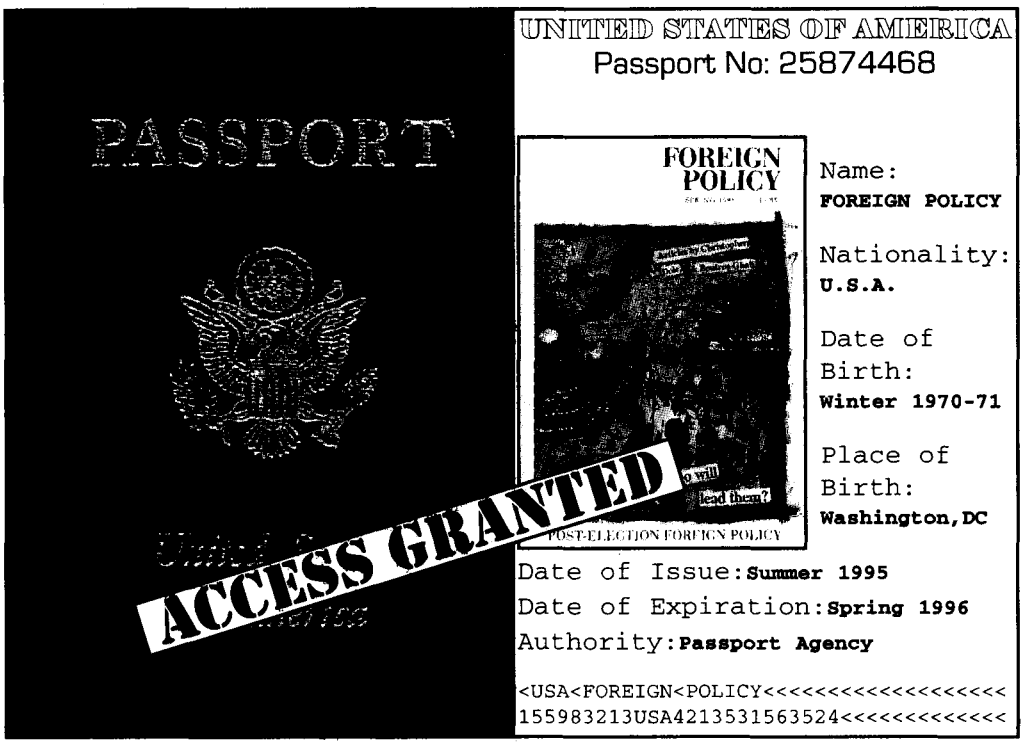
grip on the private sector, imposing pervasive economic controls, and in some cases nationalizing banking systems. In 1995, the initial reaction of the Mexican, Brazilian, and Argentinian governments to the backlash produced by Mexico's crash was to deepen their market reforms, accelerate their privatization plans, boost their fiscal accounts, fine-tune their foreign exchange regimes, step up their efforts to promote exports, and strengthen their private banks. The commitment to these reforms will be severely tested in coming years, and Brazil and Argentina have combined their deepening of some reforms with a backslide in their trade opening. But the initial reaction has been more in line with the new policy orientations of the 1990s than with those in vogue in the previous 50 years.

These new attitudes began to surface in the late 1980s. In the early 1990s, some of their most articulate exponents became the economic ministers of many countries in Latin America. The international financial community was dazzled by this new breed of highly trained, charismatic leaders who used their frequent international road shows to sway investors. Moreover, investors had only to turn to their computer screens to confirm that the macroeconomic situation in Latin America was turning around and that stock markets there were becoming gold mines.

What the computer screens did not show, however, was the fragility of the underlying realities and the immensity of the tasks still remaining. While the initial stage of macroeconomic reforms was relatively easy to implement, the next stage—deeper institutional changes—was going to be harder and take much longer. Changing rules is always easier than changing organizations. Opening the stock market to foreign investors or eliminating subsidies can be done with the stroke of a pen and can have immediate results. Building the equivalent of a Securities and Exchange Commission or organizing a well-targeted social program to compensate the poor for the loss of subsidies requires complex organizational efforts that take much longer to bear fruit. In Venezuela, for example, the banking system was relatively easy to deregulate. Upgrading the regulatory framework was a much slower process, and that lag proved fatal. More than half the banks in the country failed because of massive corruption undetected by shoddy government supervision and because of eco-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Your NEW PASSPORT is Ready!



Today's world is ever changing. International partnerships and alliances are springing up overnight. As countries redefine their boundaries and influences, ancient hatreds and coalitions continue to form and shatter...

Your tool for a clear understanding of the international policy scene remains the same: FOREIGN POLICY. To adjust to the changing world, we've changed as well. We have a new, more accessible shape with more drawings, maps, and photos. High-level access to international whitepapers.

And we invite you to sample our latest issue...FREE!

Recent issues have featured articles by Warren Christopher, Robert Dole, and Boutros Boutros-Ghali. So go beyond the news headlines and enter the world of true understanding. Send for your new passport!

FOREIGN POLICY. Your key to understanding the world today. And tomorrow.

See the subscription card in this issue for a great deal on the new FOREIGN POLICY. Or, for even faster service, call 1-800-678-0916. Credit card orders accepted.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

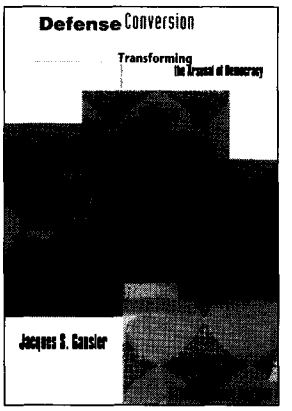
SWORDS INTO PLOWSHARES?

DEFENSE CONVERSION

TRANSFORMING THE ARSENAL OF DEMOCRACY

A Twentieth Century Fund Book

By Jacques S. Gansler



DEFENSE CONVERSION offers solid proposals for making the defense sector a thriving, integrated civilian/military operation that maintains U.S. military strength in a time of reduced defense budgets—without sacrificing technological superiority or a strong industrial base. Gansler, former Deputy Assistant Secretary of Defense, says the government must play a major role if this conversion is to be successful.

Required reading for anyone interested in this very important subject.

—Gen. David C. Jones, USAF (Ret.)
Former Chairman, Joint Chiefs of Staff

Anyone who is interested in national security, America's competitiveness or jobs will be both informed and challenged by Gansler's fascinating book on defense conversion.

—Norman R. Augustine
President, Lockheed Martin

Anyone who has anything to do with defense acquisition should read this book.

—Dr. J. Ronald Fox
Professor Emeritus, Harvard Business School

256 pages; 0–262–07166–5; $25.00; cloth

PUBLISHED BY The MIT Press. To order *Defense Conversion*, telephone 1–800–356–0343.

AND IN SEPTEMBER. . .

A new volume by Kevin O'Prey in the Twentieth Century Fund series RUSSIA IN TRANSITION deals with the issue of defense conversion in the former Soviet Union.

THE TWENTIETH CENTURY FUND

41 EAST 70TH STREET, NEW YORK, NY 10021 • 212–535–4441

PLEASE WRITE OR CALL FOR A FREE CATALOG OF ALL TCF PUBLICATIONS

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

nomic instability resulting from misguided policies. The bank failures led to a bailout that was proportionally over 15 times larger than the United States' savings and loans crisis.

Latin America's institutional frailty remains a major bottleneck for the needed fundamental transformations. Enthusiastic portfolio investors, for example, paid scant attention to the fact that Latin America exhibits the lowest savings rates of any region and has yet to overcome many of the obstacles that hinder its capacity to compete abroad. Such political and economic handicaps lengthen the time needed for market reforms to bear fruit.

Latin America will remain vulnerable to the vagaries of world financial markets.

In Latin America, 46 percent of the population is poor. In 1994, one out of every five people in the region did not have the money to ensure an adequate daily diet. But Latin America is not only poor. It has also had the most uneven distribution of income in the world since data on the subject first became available in the 1950s. The percentage of income going to the poorest fifth of the population declined between 1950 and the late 1970s, well before the debt crisis and the market reforms of later decades. By the early 1990s, wealth was even more concentrated than in the early 1970s, with the richest 10 percent of households receiving 40 percent of the total income while the bottom 20 percent got less than 4 percent.

The explanations for the region's extreme poverty and inequality are many and varied, but inflation, stagnation, unemployment, the marginalization of indigenous populations, and public agencies' inability to provide even minimally adequate education and health care are key factors. The recent lowering of inflation and the resumption of economic growth has curbed the expansion of poverty that Latin America suffered in the 1980s. But the rate of growth has not been enough to reduce poverty. In 1993, the average income per person was five percent less than it was in 1980. According to the World Bank, the number of poor increases every year in which average regional economic growth falls under 3.4 percent. Moreover, regardless of how high growth rates may be, there is little hope of achieving much social progress unless the effectiveness of social welfare agencies is dramatically increased. This, in turn, requires major

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

reforms in labor laws that now make it virtually impossible to rid the public sector of its severe organizational handicaps.

To sustain higher growth rates, Latin America's low domestic saving rates will have to increase significantly. On average, the high-growth countries of East Asia save 35 percent of their GDP. At about half that level, Latin America's saving rates have been the world's lowest since the 1960s. The new trend toward price stability, fiscal balance, financial reforms, and privatized pension funds bodes well for a gradual increase in savings rates. In the meantime, however, Latin America's economic growth will continue to be overly dependent on capital repatriation and external financing, making the region's economies vulnerable to the vagaries of international financial markets.

After decades of protectionism, Latin America is betting its future on exports.

The region's low savings rates are closely associated with low investment rates. Latin America has accumulated a gigantic backlog of investments in a wide variety of sectors. Just to cover pent-up demand in water and sanitation, telecommunications, power, and transportation, it needs to invest $60 billion each year for the next six years—about $1 billion each week. The region's neglected manufacturing and agricultural sectors need massive investments to update their technology and increase productivity. The necessary money can only come from a combination of foreign investment and increased domestic savings.

Low productivity is at the core of the region's handicap in selling the exports it needs to sustain higher growth. While the reforms have clearly made Latin America more competitive than ever, the region's exporters still face major structural impediments to becoming world-class players. In Singapore, it takes 20 minutes for a cargo ship to clear customs and only a few hours to load or unload its freight. In most Latin American ports, the process takes days or even weeks. While Argentina or Peru may today be more competitive than ever, what really matters is how competitive they are with rival countries for shares of the world export markets. The region's exporters still face such hurdles as labor codes that stifle worker productivity, industrial plants designed to serve protected domestic markets, managers and bankers with little export experience, inadequate infrastructure, and poor public services.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

In the 1950s, Latin America accounted for 12.5 percent of world exports. In 1990, it accounted for less than 3.5 percent of world trade—its lowest point in a century. Today, it is even behind the five percent share it enjoyed in the late 1970s. In contrast with East Asia, where the weight of commodities in total exports has declined sharply, from 90 percent in 1970 to less than 25 percent in 1995, commodities continue to account for over half of Latin America's exports.

But export performance not only depends on domestic factors. Access to export markets is another important requirement. The many free trade agreements in the hemisphere, the completion of the General Agreement on Tariffs and Trade's Uruguay Round, and the creation of the World Trade Organization (WTO) are all good news for Latin American exporters. Other news is less good. Latin American exporters still face protectionist barriers in Europe, Japan, and the United States. At a time in which half of world trade takes place under the preferential conditions among members of regional trading arrangements, the Mexican crash has pushed the prospect for extending NAFTA to the rest of the hemisphere well into the next century. "I am not sure we are ready for more adventures," said Senator Daniel Patrick Moynihan (D-N.Y.) of the possibility of extending NAFTA to U.S. neighbors south of the Rio Grande.

After decades of protectionism, Latin American countries are betting their future on exports. While soaring intraregional trade saved the day for many exporters in the early 1990s, the hope was for a next stage when more rapid expansion of extraregional exports anchored in free trade agreements with industrialized countries would become a stable engine of growth. That stage will have to wait. Export growth will continue to rely on intraregional trade and the expansion of exports to Europe, Asia, and the United States. Fortunately, world trade is expected to grow rapidly in coming years, and these three markets are becoming more open thanks to the Uruguay Round and the WTO.

It will be some years, however, before Latin American exporters will be able to enjoy the benefits of treaties designed to facilitate access to these markets. Despite the renewed European Union rhetoric about economic cooperation with Latin America, the EU's Common Agricultural Policy leaves very little room for meaningful trade agreements, given the importance of agriculture in Latin

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

America's exports. Asia's interest in Latin America continues to be driven almost exclusively by its need to secure access to raw materials and agricultural commodities. In the aftermath of the Mexican debacle, even Chile—small, remote, and posing no significant threat to protectionist coalitions in the United States—faces an uphill battle for NAFTA membership.

This leaves countries like Brazil and Argentina with even dimmer hopes of joining NAFTA in the near future. Not that the Brazilians much care. They have repeatedly stressed that, for them, being "annexed" by NAFTA is less a priority than it was for Mexico. Brazil's dependence on the United States for export markets and portfolio inflows is much lower than Mexico's. Moreover, Mexico's willingness to accept many of the NAFTA conditions reflected its desperation to boost the confidence of the jittery foreign investors on whom Mexico had grown so dependent.

By default, dimmed hopes about NAFTA have brightened the prospects for Mercosur, a trade area formed by Argentina, Brazil, Paraguay, and Uruguay that, unlike NAFTA, has the EU as its main trading partner. The main threat to Mercosur's progress is a reversion of any of its larger members into protracted macroeconomic instability. Barring such relapses, deeper economic integration among a group of countries that accounts for 70 percent of the hemisphere's non-NAFTA economy and constitutes the largest customs union in the developing world certainly could become an important driver of growth. Mercosur can also become the base on which to build "SAFTA," a South American Free Trade Agreement. When the United States recovers from its Mexican disappointment, it will again be able to recognize that free trade with South America is indeed an important national priority. Argentina or Brazil—a country roughly the size of Russia in terms of its economy and population—might then be accorded at least as much attention as Haiti, Cuba, Panama, or Grenada.

This would be a welcome departure from the tradition of having more immediate hemispheric concerns and emergencies displace the largest South American countries from the U.S. agenda. In the 1960s and 1970s, the United States concentrated on dealing with Cuba and communist insurrections throughout Latin America. In the 1980s,

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

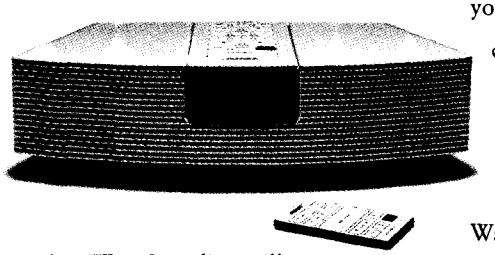
Why you should pay $349 for this radio.

Obviously, it better not be just nother radio. This one isn't. Quite imply, the Bose® Wave® radio gives ou sound that's richer, more natural, ıore lifelike than you've ever heard :om a radio. Many people think it ctually sounds more like a stereo ystem. It's no exaggeration to say ou have to hear it to believe it.

Finally, Bose sound from a small radio.

The Wave® radio is from Bose, ne of the world's leading makers of udio equipment. A few years ago, we ndertook the task of getting Bose-uality sound from a small radio. To lo it, we used our patented acoustic vaveguide speaker technology. Just as flute strengthens a breath of air to fill n entire concert hall, the waveguide roduces room-filling sound from a mall enclosure.

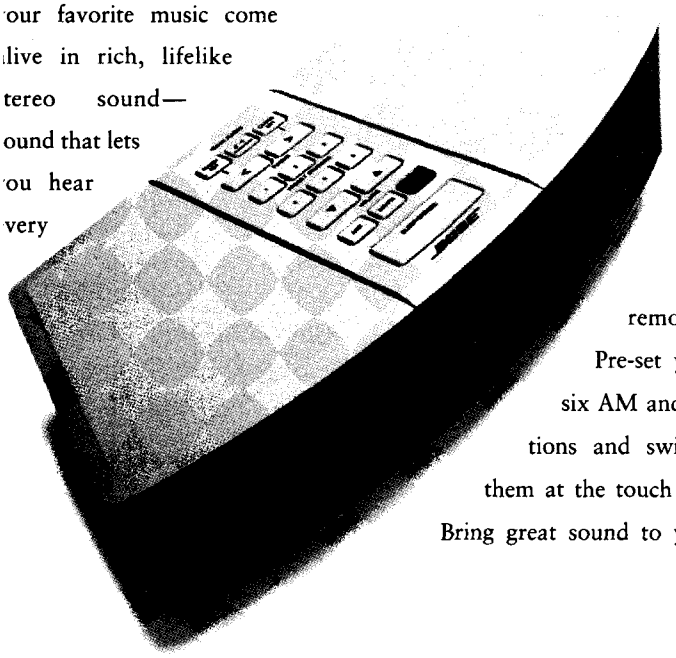
Touch a button and hear our favorite music come live in rich, lifelike tereo sound—ound that lets ou hear very note the way it's *meant* to be heard. Which is why it's well worth $349. No matter what kind of music you enjoy,



the Wave® radio will truly increase your listening pleasure. Consider that *Popular Science* honored the Wave® radio with a "Best Of What's New" award. *BusinessWeek* named it a "Best New Product of 1994." And since it's small enough to fit almost anywhere, you can listen in your bedroom, living room, kitchen, or any room.

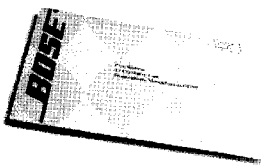
Great sound made easy.

In addition to great sound, we built in an array of easy-to-use features no other radio gives you. Operate the radio from across the room with the credit card-sized remote control. Pre-set your favorite six AM and six FM stations and switch between them at the touch of a button. Bring great sound to your favorite recordings by connecting the Wave® radio to your CD or cassette player. Or connect your TV or VCR to make your favorite programs and movies come alive.



You have to hear it.

We don't expect you to take our word for how good the Wave® radio sounds. You really have to hear it to believe it. The Wave® radio is available directly from Bose. Use the toll-free number or the coupon to request more information. Or call to try out the Wave® radio in your home for fourteen days, satisfaction guaranteed. If you love it, keep it. If not, return it for a refund of the purchase price.



Call 1-800-845-BOSE, ext. RP307, or send the coupon today.

You've had a lot of radios—small radios, portable radios. It's time you owned the best-sounding radio—the Bose Wave® radio.

Call 1-800-845-BOSE, ext. RP307.

Mr./Mrs./Ms. _____
Name (Please print)

Address

City State Zip

( ) ( )
Daytime telephone Evening telephone

Mail to: Bose® Corporation, Dept. CDD-RP307, The Mountain, Framingham, MA 01701-9168, or fax to 508-485-4577.

© 1995 Bose Corporation. Covered by patent rights issued and/or pending. Price is subject to change without notice.

BOSE®
Better sound through research.®

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Outstanding History

Britain and Poland, 1939-1943

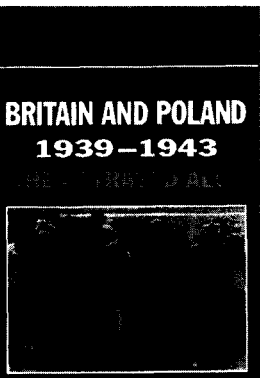
The Betrayed Ally

Anita J. Prazmowska

British-Polish relations during the Second World War were influenced by the fact that Polish demands on the Soviet Union threatened Soviet relations with Britain and the United States, and Soviet participation in the war. This book relates British policies and war-time strategy to Polish expectations and policies.

Cambridge Russian, Soviet and Post-Soviet Studies 97

40309-X
Hardback $64.95
48385-9
Paperback
$29.95



Now in paperback...

A World at Arms

A Global History of World War II

Gerhard L. Weinberg

"...the prose is clear, the detail arresting, and the arguments carefully deployed....This is a tour de force, classical diplomatic history at its best. Mr. Weinberg's global view of the war pays dividends again and again." — New York Times Book Review

55879-4 Paperback $19.95

CAMBRIDGE UNIVERSITY PRESS

40 West 20th Street, New York, NY 10011-4211. Call toll free 800-872 7423. MasterCard/VISA accepted. Prices subject to change

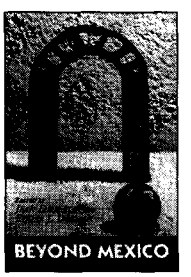
BEYOND MEXICO

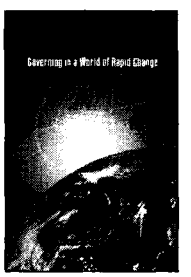
CHANGING AMERICAS

EDITED BY JEAN DAUDELIN AND EDGAR J. DOSMAN

A timely assessment of the dynamic state and prospects of trade developments that redefine political, economic and social connections between Canada, Mexico and the United States. Well documented, policy-relevant and eminently accessible.

Format: 6" x 9", 272 pp.
ISBN 0-88629-249-2 case $31.95
0-88629-251-4 pbk $21.95





CHANGING MAPS

GOVERNING IN A WORLD OF RAPID CHANGE

STEVEN A. ROSELL, ET AL.

"This book is a major event in the growing literature about what 'the information society' will mean for governance in a democratic commonwealth."

Harlan Cleveland
President
World Academy of Art and Science

Format: 6" x 9", 250 pp.
ISBN: 0-88629-264-6 pbk $21.95

To order call toll free:1-800-320-4606 or fax (613) 788-2893 e-mail: 1prenol@ccs.carleton.ca

CARLETON UNIVERSITY PRESS

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

the debt crisis and the Central American wars monopolized Washington's attention. During the early 1990s, economic reforms, NAFTA, and Haiti became the foci. In the second half of the 1990s, U.S. attention will probably be concentrated on ensuring that Fidel Castro's Cuba does not survive and then on lamenting the extreme costs to American taxpayers of the island's transition to democracy and free markets. Perhaps the United States will finally be able to focus on its other large neighbors to the south in the next century.

AFTER THE TEQUILA HANGOVER

THE WIDESPREAD euphoria about Latin America vanished overnight in the wake of the Mexican crisis. The current gloom about the region's future—the Tequila effect—will also pass, albeit more slowly. After the hangover, a more sober, realistic view is already beginning to emerge. The realization that Latin America is neither the promised land described in the promotional brochures of the early 1990s nor the wasteland depicted in the scathing articles prompted by the crisis will eventually sink in.

In coming years, Latin American governments will exhibit more diversity in their economic policies than in the last five. More segmented foreign investment inflows, differential export performances, and varied political circumstances will affect both the pace of reforms and their specific emphasis in different countries. Nonetheless, in all countries the central challenge will be the same: to reconcile macroeconomic stability with quicker reductions of poverty and inequality. International financial markets are making it more difficult than ever to sustain protracted fiscal and monetary imbalances. Early this decade, achieving macroeconomic stability was enough to insure popular support for governments steering their countries out of long periods of crisis. But in the post-adjustment stage, macroeconomic miracles will not be enough to endear Latin governments to their voters. Democratization is making it more difficult than ever to sustain the traditional social imbalances. The patience of the poor and the middle classes is being eroded by the sluggishness of progress on the social front. The Chiapas uprising in Mexico and the recent revolts

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

in Venezuela are dramatic reminders to Latin American politicians of the consequences of not moving fast enough against social inequities.

Retaining the region's newfound but still fragile macroeconomic equilibrium requires new ways of funding public expenditures as well as major redirections of government spending. For instance, public money now going to public universities, the military, or urban infrastructure will have to be reallocated to primary education, preventive health care, and rural communities. As income from privatization will no longer be the main source of fiscal revenues, the tax base should be expanded. For the first time in Latin America's history, property taxes should be more than a symbolic source of public revenues. These measures are as obvious as they are politically difficult to adopt, but keeping them out of public debate will become increasingly onerous.

Another area that will pose unprecedented challenges for Latin American governments is their interaction with the global economy. Finding exchange-rate regimes consistent with both new international financial realities and domestic macroeconomic constraints will continue to be a difficult puzzle. The current wariness about the risks of foreign portfolio investment will have to be reconciled with the fact that without such investments, access to the largest pool of global capital now available will be severely curtailed. Access to export markets will continue to be a critical factor, but in contrast to the early 1990s, the fortunes of Latin American exporters may be determined more by free market reforms made in Brasilia than in Washington.

The biggest challenge of all, however, will be to build the institutions needed to anchor the reforms of the last five years so social reforms can progress further and faster. From antitrust commissions to schools, from banking supervision boards to rural health delivery units, the desperate need for better institutions runs the gamut of public tasks. Many of these institutions already exist. Some are even quite old and boast all the trappings of modernity. Yet too often they are mere façades that cannot perform the functions for which they were created. "So many words have acquired lesser meanings in Argentina: *general, artist, journalist, historian, professor, university, director, executive, industrialist, aristocrat, library, museum, zoo;* so many words need inverted commas," the author V. S. Naipaul has

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

written. Unfortunately, throughout Latin America, the inverted commas also apply to institutions like "Ministry of Education," "Child Nutrition Board," and "Technological Research Institute." The central challenge for Latin America is to get rid of the inverted commas. Building effective institutions will mark the difference between instant but perhaps passing reforms and those that are sustainable and more permanent. In the future, neither governments nor investors will be able to afford the luxury of superficiality they enjoyed in the early 1990s. Governments will have to go beyond issuing sweeping decrees and worry more about the details that make institutions work, and investors will have to look deeper into the countries in which they invest and learn to differentiate among them.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Fulfilling Brazil's Promise

A Conversation with President Cardoso

James F. Hoge, Jr.

BRAZIL'S PENCHANT in this century for bursts of reformist zeal followed by relapses into political chaos and authoritarianism has kept alive the wry observation that "it is the country of tomorrow—and always will be." Through the years, the spasms of reform could claim specific accomplishments but never a full turnaround. Thus the potential of South America's largest country, occupying half the continent, remains to be realized. Its resources for greatness are plentiful: 155 million people, a $500 billion gross domestic product, the continent's biggest industrial infrastructure, and a productive agricultural sector. Brazil also has gigantic problems—20 percent of its population living in poverty, income inequality comparable to that of Nigeria and Egypt, deteriorating health care and education systems, a culture inured to an inflationary economy, and skyrocketing crime rates (so high in Rio de Janeiro that the army has been called out to combat crime and disorder).

Foremost, Brazil needs a sustained period of low inflation and steady growth, accompanied by social and infrastructure development. These goals are at the heart of the reformist government headed by Fernando Henrique Cardoso. The new president is a 63-year-old sociologist who served as a senator and finance minister before his effective anti-inflation plan propelled him to a landslide victory in elections last October. In office since January, Cardoso is being called the most honest and best prepared president of Brazil in more than a generation. His cabinet also gets high marks for experience and competence.

JAMES F. HOGE, JR., is Editor of *Foreign Affairs*.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

BETTMANN

Cardoso, campaigning for the presidency in 1994.

Cardoso is a former Marxist intellectual whose thinking has evolved from socialism to his current approach, which couples liberal, market-based economics with strong antipoverty measures. He has a natural cordiality and quiet inner confidence that complement his belief that coalition-forging and negotiated solutions can surmount Brazil's fragmented politics. Given the dominance in Brazil's National Congress of regional bosses and advocates of a state-centered economy, Cardoso's pace of reform is a deliberate one.

In recent months, delays and compromises have weakened the president's strong public support, some of which was based on unrealistic expectations. Cardoso's ability to sustain broad-based backing may determine whether Brazil turns the corner for good this time. Political paralysis and renewed inflation have left previous reform efforts to founder amid disillusionment. Too often, military coups followed.

Because Brazil represents half the population and GDP of South America, its fate is profoundly consequential to other Latin American nations. A permanent turn to democracy and liberal economics would alter the geopolitics and better the economic prospects of the entire hemisphere. In April at the Presidential Palace in Brasília, Cardoso discussed the role of Brazil and the process of reform.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

LEADER OF THE PACK

JH: In this century Brazil has experienced several periods of military government, the last time for 21 years until 1985. How strong is democracy now? Can it withstand some political disappointments and economic setbacks?

FHC: Of all the changes—the turn toward liberal economics, the more positive attitude about the United States—the most important change in Brazil and Latin America is the implantation of freedom and democracy. Real democracy is not just formal and institutional but societal, and that is what has developed in Brazil. We have a dynamic civil society. There is an enormous number of new organizations in Brazilian life, and they all speak up and criticize, most of all the press. Government acts are always under the close scrutiny of the press, which may sometimes irritate, but that is fine. Scrutiny is good because it is impossible for Brazilian leaders to do what other leaders in the region occasionally did—disguise the real situation.

As for the military, you know I was in exile during several of the years they ruled. That is the past. Today the military is playing a constructive role in open-mindedly discussing national objectives.

JH: The traditional left in Latin American politics, one based on socialist thinking, is dormant if not dead. How will its constituency be politically represented?

FHC: Leftist politicians were virtually excluded from the political life of Latin America under authoritarian rule. It was easy then to identify the left with the desire for change. The left was an important voice in the broader movement for the restoration of the rule of law. This situation has changed, even though some of the ideas of the left remain. If the goal of a socialist regime is forgotten, the notion of a strong state as the main instrument of development is still alive. Perhaps this is what explains why the left is now a major force among public civil servants and has developed corporate interests in several areas of the state.

So, paradoxically, its line of action has conservative elements that manifest themselves more clearly in an attitude of open reaction against any reform leading to the reduction of the size of the state or its presence in the economy. The left does not take into account that those reforms are needed and supported by the vast majority of the Brazilian people.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

JH: Looking outward, what is your assessment of the condition of Latin America, particularly your Southern Cone neighbors, who are central to your trade strategy?

FHC: After the painful "lost decade" of the 1980s, during which per capita income remained stagnant in the region, I believe that, as a whole, South America has been doing well in the 1990s. It is today in good shape. Economic reforms were undertaken in practically all countries that integrated their economies more deeply into the global markets, stabilized their currencies, and ultimately laid the ground for sustained growth.

Economic performance and progress in advancing reform have been different among countries in the region. Mercosur [common market] members—Argentina, Brazil, Paraguay, and Uruguay—are experiencing, as a group, probably the highest growth rates in the region. Trade flows among them have expanded as commitments on tariff reductions are gradually implemented. Progress in other countries is also noteworthy. To give you only two examples, Chile and Colombia have posted strong and steady growth rates for a number of years.

The Mexican crisis has had only an indirect impact, and that will be overcome.

As for the crisis surrounding Mexico's devaluation of the peso, I think its adverse impact on the region will be overcome. In fact, its impact has been largely indirect, insofar as it has temporarily reduced capital inflows into Latin America. Even countries in which the impact was more direct, in which the reduction of capital inflows could have had a destabilizing effect, are demonstrating the political will necessary to address the challenge in a decisive manner. It is always important to differentiate the real economic situation, which is good almost everywhere in the region, from the financial movements, which have to do more with investors' psychology and swings in public confidence. Countries in the region have had to adapt to this new circumstance of lower capital inflows from abroad while going ahead with their stabilization efforts and reform processes.

JH: Despite its strategic size and resources, Brazil has been viewed as a relatively passive leader within its region. Is that changing? Is Brazil prepared to be more assertive?

FHC: Certainly regarding economic integration efforts, there is no doubt. My first presidential visits were to Argentina and Chile, and I am traveling to Bolivia, Colombia, and Venezuela. Brazil has excellent

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

relations with its neighbors. We view them as partners with whom we resolve issues and set directions through negotiations. The diplomatic way is a Brazilian heritage and will remain at the heart of our role on the continent. However, I will employ diplomacy vigorously and with urgency when necessary. That is why I acted directly to help resolve the recent border conflict between Ecuador and Peru. Maintaining Latin America as a peace zone gives the continent an enormous advantage. The key equation goes as follows: Brazil is a country of great regional importance but without hegemonic aspirations.

JH: Has the crisis of investor confidence surrounding the devaluation of the Mexican peso adversely affected the prospects of the Mercosur common market among Brazil, Argentina, Uruguay, and Paraguay?

FHC: No, no. We continue to move forward. Inter-nation trade within Mercosur has multiplied by five in four years, reaching $10 billion. And commerce between Brazil and Chile has increased enormously, to about $1.5 billion. Soon Chile will have associate status in Mercosur, and I am looking forward to Chilean capitalists participating in Brazilian privatization.

JH: Would you then rather not see Chile join NAFTA, the North American Free Trade Agreement?

FHC: Chile is a complementary economy to the United States. It can integrate both northward through NAFTA and regionally through Mercosur. I would welcome that.

JH: And how does Brazil view NAFTA?

FHC: Brazil is a global trader, and it is important for us to keep this profile. Maintaining important trade flows with different regions of the world is less risky than relying on a single trading partner. Brazil is thus a country interested in strengthening the world trade system.

We see integration schemes as playing an important role in expanding world trade flows even further. They complement rather than substitute for international rules such as those of the World Trade Organization. While Mercosur is our first priority as far as economic integration is concerned, hemispheric integration is a long-term goal set at the Miami Summit of the Americas in December 1994. For hemispheric integration to happen, NAFTA and Mercosur—which are the largest trade agreements in the hemisphere—must be brought together.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

©1995 BankAmerica Corporation

GUARANTEED LEASE FINANCING FOR A GLASS MAKER IN SOUTH AMERICA

(We Saw Through All The Tax Implications)

The more complex the problem, the more experience it takes to see the answer. Here our knowledge of Eximbank programs and the tax laws of one South American country helped us defer costly import duties for our client. To achieve our clients' vision, we offer multi-faceted solutions.

Bank of America

Our client had the benefit of relationship officers specializing in leasing and the South American market.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

The New York Times Bestseller

Turmoil AND Triumph

George P. Shultz

DIPLOMACY, POWER, AND THE VICTORY OF THE AMERICAN IDEAL

"The most detailed, vivid, outspoken, and reliable record we probably shall have of the 1980s."
—Walter LaFeber, *American Historical Review*

"The most informative source available for the diplomacy that marked the last years of the Cold War."
—Robert W. Tucker, *Foreign Affairs*

"Superb...the fullest and most reliable account yet from any member of the Reagan Administration....Everyone concerned with foreign policy ought to read it."
—Gaddis Smith, *The Boston Globe*

"Honest, insightful, and important."
—Fareed Zakaria, *The Wall Street Journal*

TOUCHSTONE BOOKS
A Division of Simon & Schuster

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

This is a challenge we will be faced with in the coming years. I am sure we will be successful.

JH: How long before there is a hemispheric free trade arrangement?

FHC: Ten years or more, as agreed upon in Miami. After what happened in Mexico, the expected time frame may have to change.

AN UNENCUMBERED PARTNERSHIP

JH: Do you think that having different priorities and timetables concerning trade arrangements in the hemisphere eventually will put Brazil in conflict with the United States?

FHC: Maybe in competition, but not in conflict. In the emerging global economy, we are not in business in opposition to NAFTA or to eventual integration into a hemispheric free trade association. In fact, the United States can be an ally if protectionism were to crop up in Europe or elsewhere. Thus it is not enough for Brazil to look at European and Asian countries. That is why I applaud the decisions taken at the hemispheric summit in Miami. I am convinced that in the future we will have to amplify our system of trade in the whole hemisphere. Brazil is not afraid. It is competitive in terms of agriculture, in terms of industry.

JH: On a broader scale, some analysts are predicting that if Brazil successfully modernizes its economics and politics, thereby increasing its strength and confidence, old and new tensions with the United States will flare up.

FHC: We are now in a completely new stage in our relations with the United States. For instance, in the past a Brazilian president going north to meet with the U.S. president would be blamed by the Brazilian people. Suspicion and resentment of the United States were common here and throughout Latin America. Now my visiting an American president is politically popular all over the country. The two countries may have differences in one case or another but they don't add up to major problems.

JH: Let us take two cases which are the sources of some friction: stronger intellectual property rights, which America wants from Brazil, and more access to technology, which Brazil wants from America.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

FHC: I made an enormous effort to get an intellectual property rights bill passed by the Congress when I was foreign minister and then when I was finance minister. As the new president, I am still trying to get a vote. Patent protection is linked to getting freer transmission of technology from foreign companies. We need such outside investment because domestically we are behind in what should be put into science and technology and relevant training.

As for the U.S. government, it remains sensitive, overly so in my opinion, to giving access in such areas as missile technology. We have no interest in such technology because of its war-fighting capabilities but rather because this is the vanguard of science and technology. It is a legitimate interest of Brazil that should not be a cause for concern. Brazil has already made it clear that it is willing to participate in the existing international regimes, such as the Missile Technology Control Regime, limiting this kind of technology to peaceful purposes alone. This is an area in which cooperation between Brazil and the United States would be natural and fruitful for both countries.

Now it is politically popular for a Brazilian president to visit the United States.

JH: So you see a relationship that is cordial, marked by differences but not great problems, and that still maintains a certain distance from U.S. policy?

FHC: It is right for Brazil to play a more active role internationally. So we don't want to discuss with America just Brazil, the United States, or South America. We want to discuss also what is happening in the Middle East, Africa, and Europe. We believe a change is due in the United Nations Security Council. Brazil is ready for the responsibilities of a permanent member seat, and we have confidence that other countries believe Brazil is ready to play this role.

JH: As a large, interracial society that includes among its challenges those of social equity, do you see a special role for Brazil as a champion of the interests of southern states versus northern ones around the globe?

FHC: I think that the end of the Cold War has deeply changed for the better the atmosphere in international relations. There is a relatively broad convergence of values in the international community. Countries both in the North and in the South have come to regard democracy and the protection of human rights, as well as a free-market economy, as the

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

best way to ensure development for their citizens. Contrary to the widespread perception of the 1960s and 1970s, I do not see the interests of the North and South as conflicting or as preventing cooperation. I see rather a commonality of interests based on the values that won the Cold War. Brazil's priority in foreign policy is precisely to advance those values, to strengthen the positive elements in the international scene that have emerged with the end of the ideological confrontation. Let us not replace the East-West tensions with a North-South conflict without justification. There are, obviously, differences between North and South, and, recognizing such differences, Brazil has been acting as a consensus builder in many international conferences, such as those on the environment [Rio de Janeiro, 1992] and human rights [Vienna, 1993].

JH: A recent commentary observed that the United States to this day devotes more attention to small countries in the Caribbean and Central America than to Brazil. Has the United States increased its high-level attention to Brazil as much as, for example, Great Britain has?

FHC: It is beginning to, and I hope that my visit to the United States has accelerated the process. I am confident that what I call an unencumbered partnership is possible, one that unites Brazil and the United States in pursuit of a more open international system that focuses on development and makes people its central concern.

COPING WITH POVERTY

JH: Concerning development and people, is there an inherent contradiction between the strict measures required to achieve your macroeconomic goal of economic stabilization and the chronic social problem of widespread poverty? Among developing countries, Brazil has one of the higher standard-of-living disparities between rich and poor, and the gap is growing.

FHC: To cope with the poverty problem, we need more precise statistics that help us understand the number of poor, where they are located, and why they are poor. Then remedies can be efficiently targeted. Addressing the subject broadly, we know the first need is more employment. That requires investment, particularly since industrial employment isn't absorbing population [growth], here or elsewhere in the world. Even in agriculture, which in Brazil is characterized by big farms under the capitalist umbrella, we need agrarian reform, not only in the land tenure system but also in modernizing production tech-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

niques such as expanded irrigation programs. They, however, require more sophisticated labor, and that means training poor people.

So we must expand primary education by shifting government expenditures that now go predominantly to higher education. Along with funds from the federal government to municipalities and states, which have the constitutional responsibility for primary education, we need to transmit incentives, rules, and goals. We are organizing a television system to train teachers, seeking support from private foundations, and searching out techniques in the United States and Canada.

Second, we are focusing on health services, specifically on lowering infant mortality through educating parents in child care, and on improving sanitation, sewage, and water treatment. We have targeted the 500 poorest municipalities for pilot programs of coordinated efforts on educational, nutritional, and infrastructure problems. This is the *Comunidade Solidaria* program.

All of this will take some time. So, to my mind, it is important to place immediate and sustained attention on expanding economic growth and on containing inflation—which is the cruelest tax on the poor. This approach automatically produces some favorable results in alleviating poverty. Then, second, the kind of social programs I have described are necessary because we cannot expect the market to solve the problem of poverty. The market solves problems for people already integrated into the economic order.

JH: Brazil's population is approximately 55 percent Caucasian and 35 percent mixed blood, with smaller minorities of African, Japanese, and Chinese descent. Brazil has thought of itself as less race-conscious than other mixed societies. How do you define the issue of race in the context of contemporary conditions—the growth of civil society, the introduction of market economics, the enduring poverty problem?

FHC: Few countries have truly multiracial societies. Brazil is one of them. Though race relations may not have been so conflicting an issue in Brazil as in other countries, this does not mean we are less conscious of the question. There is no purely racial violence in Brazil. But slavery left its marks in the shaping of our society and has caused descendants of slaves to be among the poorer segments of the Brazilian people. This situation is being redressed.

Race relations is a subject that is becoming more important on the international agenda to the extent that xenophobia is on the rise in some countries, particularly in Europe. This is intolerable, and it shows that countries with more ethnically homogeneous societies are having

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

IMAGINE *DAILY* INSIGHT & ANALYSIS

FROM

- Vice-Chairman, Goldman Sachs
- Chairman, Morgan Stanley Latin America
- Ambassador from México
- and 16 other eminent leaders in the region

Latin America Advisor

The DAILY *interactive* publication for the region's leaders

- **Interactive networking with your peers**
- **Unparalleled analysis from a "dream team" of Advisors**
- **Critical financial happenings**
- **Economic developments**
- **In-depth info on companies in the region**
- **Political news**

What Subscribers say:

An excellent vehicle for communicating the ideas of regional experts and local news stories. What started out for us as merely an interesting piece of morning information has become an integral part of our company's resources.

— **Violy McCausland, Partner, James D. Wolfensohn, Inc.**

☐ **Yes! Send me a FREE trial subscription to the *Latin America Advisor***

Name _____ **Phone** _____

Company _____ **FAX** _____

Call (212)266-0898, or FAX (212)431-6274

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Call for any book

Immediate shipment worldwide

Amex, MasterCard, Visa or check

All books in print available

Ask about our overnight gift delivery nationwide

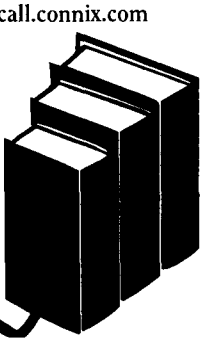
Gift wrapping available

Mail orders welcome

Open 24 hours every day

1-800-255-2665

In CT or Worldwide
(203) 966-5470
FAX 1-203-966-4329
e-mail: info@bookcall.connix.com



BOOK CALL®
59 Elm Street
New Canaan, CT 06840

A prestigious collection on
LATIN AMERICAN STUDIES

DISCOVERING THE POSSIBLE
The Surprising World of Albert O. Hirschman
Luca Meldolesi
$34.95 cloth

CATHOLIC SOCIAL THOUGHT AND THE NEW WORLD ORDER
Building on One Hundred Years
Edited by Oliver F. Williams, C.S.C., & John W. Houck
$29.95 cloth • $15.95 paper

REPORT OF THE CHILEAN NATIONAL COMMISSION ON TRUTH AND RECONCILIATION
Translated by Phillip E. Berryman
Introduction by José Zalaquett
$59.95 cloth • $29.95 paper

FROM POWER TO COMMUNION
Toward a New Way of Being Church Based on the Latin American Experience
Robert S. Pelton, C.S.C.
$21.95 cloth • $11.95 paper

ECONOMIC INTEGRATION IN THE WESTERN HEMISPHERE
Edited by Roberto Bouzas & Jaime Ros
$29.95 cloth • $14.95 paper

ISSUES IN DEMOCRATIC CONSOLIDATION
The New South American Democracies in Comparative Perspective
Edited by Scott Mainwaring, Guillermo O'Donnell, & J. Samuel Valenzuela
$42.95 cloth • $19.95 paper

AVAILABLE AT BOOKSTORES OR CALL (800) 621-2736
VISA AND MASTERCARD ACCEPTED

University of
NOTRE DAME PRESS
CHICAGO DISTRIBUTION CENTER
11030 S. LANGLEY AVENUE
CHICAGO, IL 60628

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

enormous difficulties coping with the inflow of people with different racial backgrounds. Multiracial societies such as Brazil's and America's do not witness outbursts of racial violence directed against foreigners. They have a history of dealing with race relations, though in different ways. They are thus better prepared to absorb into their populations persons of various ethnic origins. I also think that racial diversity is a driving force of economic progress. By providing for social mobility among and within each community, multiracial societies may create wealth out of ethnic variety.

Racial diversity is a driving force of Brazil's economic progress.

JH: At this point, do you have to race the clock to make structural reforms to sustain the low-inflation success of your monetary policy? Or can you follow a more deliberate pace, attempting some reforms, holding off on others, and accepting significant compromises along the way?

FHC: Political choices have to be faced, and that has resulted in focusing initially on the economic reforms. Changes in the international situation also require adjustments. Since becoming president, I have had to address the potential consequences of the Mexican devaluation crisis. I think we responded successfully with rules to keep exports expanding. They were at record levels in the first three months of 1995.

JH: Among the post-Mexico measures, you allowed a downward adjustment of the new Brazilian currency, the *real*, in relation to the dollar. Do you think it likely that additional adjustments will be necessary?

FHC: No. I believe the *real* can be kept within the current band for some time.

JH: In the post-Mexican environment, is it time for some controls on speculative capital, say, a prohibition on withdrawal of capital before six months have elapsed?

FHC: Not yet. Brazil is in a very sound position, with more than $30 billion in reserves. We have to pay some attention, but capital controls are not our idea. Despite this year's events, such as Mexico, direct investment is increasing. The automobile industry is investing heavily in Brazil. Every week, I see people announcing they are investing more.

Our current challenge is one of affluence, of controlling an expanding economy. Brazil had records in January, February, and March in

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

terms of production and consumption. So we have to raise the interest rate to control consumption.

JH: On the import side, you raised tariffs on 109 consumer durables, up to 70 percent on autos and home appliances. How long will they last?

FHC: Imports were expanding too quickly, giving us a balance-of-trade problem and draining reserves. Trade went from a surplus in 1994 to a growing deficit in the first three months of 1995. The tariffs could come down in less than a year. It depends on the needs of the stabilization program. We have to look at the exchange rate, imports, exports, the interest rate, the monetary basis. In the first three months of this year, inflation was at or below 1.5 percent, compared to 50 percent monthly before the introduction of the new currency.

WOOING CONGRESS

JH: Observers of the current Brazilian Congress note the buildup of united opposition, the tensions among your coalition partners, and the lack of popular mobilization. They doubt that the Congress will agree to sufficient constitutional change to allow the federal government to recentralize control over funds it now must dispense to the states with little accountability for how they are spent. Isn't the achievement of this goal critical to your ability to control inflation over the next several years?

FHC: One of the problems created by the 1988 constitution is that, while providing for a great transfer of resources from the federal to the state and municipal levels, it has not transferred likewise the duties and responsibilities that are financed by those resources. As a result, the federal government is overburdened with tasks for which previously existing resources are now in the hands of state or municipal authorities.

Finding a satisfactory solution to the problem is central to balancing the budget on a sustained basis and hence to the preservation of the ongoing stabilization program. I am dealing with it in two ways. First, wherever it is possible, I am transferring responsibilities to the other levels of government [states and municipalities]. Second, I am discussing with congressmen and representatives of the two other spheres of government a constitutional amendment that will eventually allow for a balance of tasks and resources across the three levels of government in Brazil. All political forces are aware of the importance of the questions. They are taking a positive attitude in our talks.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

JH: Some foreign investors are complaining that your program to privatize state-controlled businesses is not proceeding swiftly enough.

FHC: The previous government, in which I was finance minister, stopped the privatization program during its final months when I was campaigning for the presidency. Procedurally it takes six months to restart the program. That was done in January, and results are coming, for example, in privatization of electricity distribution systems. Just this week, the minister of planning, who is in charge of the privatization program, announced that we are about to sell 17 companies of the federal government this year. He also has disclosed the federal government's intention to sell the big electric power generating companies. Also, I have signed a decree allowing foreign capital to buy failing banks controlled by different states in Brazil. This is an important first-time event.

Brazil's parties are oriented by interests, not ideology, but they believe otherwise.

JH: In key areas like oil, natural gas, and telecommunications, what besides minority foreign investment in state monopolies will be allowed?

FHC: The government's idea is not limited to partnerships. For example, take telecommunications. I propose selling some telecommunications companies and opening the market for new technologies. The implication that foreign investment will be limited to minority holdings is coming from the minister of communications. Please remember, he is not the owner of the privatization program.

These changes require amendments to the constitution, a very difficult step. How the Congress decides will set the model for privatization.

JH: Is privatization one of the areas where you have sufficient support in the Congress to get the lion's share of what you want?

FHC: Our overall program requires five or six amendments to the constitution. There will be different hearings, different commission deliberations, and two votes in the House and two in the Senate. It is an enormous effort and will take three, four, or five months. We expect House and commission approval of the measures opening up [natural] gas and telecommunications and giving foreign companies equal status with Brazilian firms. And, to my surprise, the political parties asked me to send the bill proposing competition in oil exploration, transportation, and refining. One of the amendments, opening sea and coastal navigation, is much more difficult because of rules protecting labor.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

JH: The Congress, on which a lot rides, is hard to predict given what you call "unorganized majority support" for your administration. There are so many political parties, many of them only factions, given to clientism and greatly influenced by local and regional bosses.

FHC: You are right. Brazilian parties are not like European parties. They are not ideologically oriented, although they believe otherwise. Brazilian parties are interest-oriented. Every organization in Brazilian society has a representative in Congress. Legislators represent good interests—I am not criticizing them—but fragmented ones. So it is very difficult to understand how the Congress will vote, especially if one takes into account that we have a new Congress in Brazil, of which around 70 percent are new members.

Yes, we have too many parties, and there is a lack of values to expand the internal cohesion of parties. Electoral changes are needed, which will require still further constitutional transformation. It is a political matter, and I prefer not to do it. Rather, I am asking the Congress to initiate those reforms.

JH: Can you therefore have confidence of sufficient strength to achieve your legislative aims?

FHC: A new government and a new Congress have to assess each other, what power each has, what pressures each will resist. You know, it is a power game, but basically oriented by what the national interests are. At this stage, I am confident about measures to open the economy. I have much more difficulty in another area: reforming our expensive state social security system. We need common rules for retirement benefits in place of special rules that give some categories of pensioners earlier retirement and more money than others. In Brazil, there is a culture that it is good to be retired. But with life expectancy increasing, we have to extend the period of work. It is very difficult, but we cannot afford retirement payments that stretch over 30 years and more. And we must place restrictions on pension funds created by state companies.

To some extent, the controversy and resistance surrounding social security reform is good because it attracts attention and leaves room for the economic reforms.

JH: Without the right social security reforms, can you produce the necessary incentives to increase domestic savings, which in real terms are about the same as they were in 1960? Aren't greater savings a key to sustained economic growth, even more so than exports?

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

FHC: Indeed, a higher domestic savings rate is key to increasing investment and therefore to promoting growth on a sustained basis. Chile's success story, for example, is to a large extent the result of a substantial increase in savings, now around 25 percent of GDP, made possible by a private social security system that is doing very well.

In the past few years the investment rate in Brazil—which depends on the level of savings—was below 15 percent, too little for the country's needs. With the stabilization brought about by the *real*, it has increased to around 17 percent. We are looking at ways of providing for greater stimulus for savers, including private social security schemes.

JH: Stabilizing an economy that historically has suffered from chronic inflation is immensely difficult. When can sound judgments be made about your efforts?

FHC: I believe you should take the long view. Judge us by the accomplishments of four years, not four months.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

From Exiles to Immigrants

David Rieff

THE MIAMI CUBANS COME 'HOME'

EVERY DIASPORA judges itself, whether secretly or ostentatiously, to be both unique and uniquely sinned against. In this, the three-quarters of a million Cuban-Americans of South Florida are anything but exceptional. But like the Jews, the Armenians, and the White Russians before them, the Miami Cubans have tended to see themselves, both in their qualities and in their historical grievances, as sui generis. The common currency of exile is memory, above all the memory of wounds. But what may be necessary for group survival within the context of an exile group inevitably will appear to many outsiders, who share neither the memories nor the wounds, as touchy, clannish self-absorption. This has been the case with the Cuban exile community in South Florida in its relations with non-Cuban Miami, and, more broadly, with U.S. public opinion at large ever since Cuban refugees first started arriving in Miami after the victory of Fidel Castro in 1959.

It should be remembered that the first Cuban exiles to arrive after the triumph of the Fidelistas genuinely believed that they would be going home within a few months. They were encouraged in this belief by the United States, particularly once the Kennedy administration had come into office. During the run-up to the American-sponsored invasion of Cuba by CIA-trained exile groups—the operation that ended so disastrously at the Bay of Pigs—it was an article of

---

DAVID RIEFF is a fellow at the World Policy Institute and author of *Slaughterhouse: Bosnia and the Failure of the West.*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

faith in Cuban Miami that the United States was committed to overthrowing the Castro regime. And despite the subsequent bitterness in the community that still permeates older Cuban-Americans, most Cuban exiles have wanted to believe, in the words of the Miami entrepreneur, Pancho Blanco, that "no matter how often she has let us down, the United States has been our champion."

After the end of the Cuban missile crisis (viewed in Miami as yet another betrayal) the United States desisted from promising the Cuban exile community military support. But it continued tacitly to encourage the minority within the exile community that still dreamt of military action to overthrow Castro. The United States largely turned a blind eye to the efforts of exile militias and terrorist groups based in South Florida to launch attacks on Cuba. More crucially, every U.S. administration, from Kennedy through Clinton, with the sole exception of Jimmy Carter, came into office reiterating American hostility to the Castro regime and America's hope for its eventual ouster. Different administrations placed greater or lesser emphasis on the Cuban "problem," for the obvious reason that from Washington's perspective, U.S.-Cuban relations were to a very large extent an aspect of U.S.-Soviet relations. As the Cold War flared and subsided, so too did the energy with which Cuba-sponsored guerrilla movements in the Americas and elsewhere and with which the U.S. pursued its campaign against Cuba.

But whatever the vagaries of U.S. policy toward Cuba, the basic American stance toward the Castro regime has been very much in sync with the thinking in the Miami exile community. One demonstration of this is that the constant in U.S. policy has been the trade embargo against the island that President Kennedy originally imposed and that has been in place ever since. Whatever the immediate intent of the embargo, the fact is that the Soviet subsidies to Cuba rapidly rendered it useless as a practical instrument for bringing down the regime in Havana. For most of the past 30 years, its real importance has been symbolic—as a visible manifestation of hostility to the Castro regime and everything it has stood for.

As the years have passed, even the rationales given in Washington for the embargo—which, in any case, as business interest in Cuba among Europeans and Latin Americans has picked up, has become

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

ever more ineffective—have shifted from the practical to the symbolic. Even those in Congress who have favored an eventual lifting of the embargo have insisted that it should only be done in return for concessions from Havana, and after evidence that the Cuban government is willing to take steps toward democratization and correcting its disgraceful human rights policies. The dominant view for the last 30 years, however, has been that the embargo can only be lifted when there is democracy in Cuba—which has been little more than a thinly disguised way of saying when Castro falls.

And in this, the Cuban exile community has been in steadfast agreement. The problem, however, is that Washington's obsession with Cuba, except during the Kennedy administration when the problem was new and during the Reagan administration when Cuba was viewed as being behind the Sandinistas and the Farabundo Martí National Liberation Front (FMLN) guerrillas in El Salvador, has been largely instrumental, whereas for the exile community it has obviously been the central preoccupation. And this has led to a kind of perpetual state of cognitive dissonance and mutual misreading in relations between the Miami Cuban exiles and Washington. If American administrations have insisted that they were committed to "restoring democracy" to Cuba, Cuban-Americans, who have seen such a restoration as not only being predicated on the fall of Castro but on their own return to the island, have chosen to understand the American commitment as one that will eventually see them home.

To be sure, Cuban exiles have lived for 36 years in a mingled state of perpetual disappointment and perpetual expectation with regard to when they will return and when the U.S. government will finally become serious about unseating Fidel Castro. But, at least until recently, that hope has endured largely unshaken, even as the Miami exile community itself has been transformed by the gradual passing from the scene of people who lived in Cuba as adults before 1959, the rise of American-born generations, and the arrival of new waves of immigrants from the island. Particularly during the past 15 years, immigrating Cubans have been very different culturally, sociologically, and even to some extent racially, since the latest arrivals are the first exiles to number a significant portion of nonwhite Cubans.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE DREAMS OF RETURN

EXILE IS about hoping, of course, even when hope is unrealistic, and about preserving to the extent possible a collective sense of exceptionalism. But in the case of the Cubans in South Florida, not only U.S. resolve in maintaining the trade embargo against the island, but also the special status Cubans have enjoyed in the United States between Congress' 1966 Cuban Adjustment Act and the revision of that status by President Clinton in May 1995, has led to this sense that dreams of return are not without foundation. From 1966 until this year, all Cubans have been treated presumptively as political refugees, not immigrants. Ordinary Americans, both in South Florida and in the country as a whole, have had difficulty with the idea that Cubans are exiles rather than an immigrant group. But Cubans could point to the special treatment afforded them and no other collectivity in the United States as evidence that the American government agreed with their interpretation of their situation rather than with the general public's.

This difference in perception has, of course, been critical to the animosities that have intermittently arisen in south Florida between Cubans who attribute much of Miami's contemporary importance to their entrepreneurial skills and effort and non-Cubans who have tended to see their Cuban neighbors as a group that has done extremely well over the past 36 years, in part because of special privileges few other groups coming to America received. In other words, they are describing the history of an immigrant group, which, for all its vicissitudes, has certainly been no worse than that of the Irish, or the Italians. But the crux of the misunderstanding that has dogged the community lies in the fact that, rightly or wrongly, Cubans in South Florida have not seen themselves as immigrants but as exiles.

And from the exile perspective, every hour of the 36 years since Castro took power has been an hour of added suffering. No amount of material success, they insist, can make up for the loss of a homeland—particularly a homeland only 140 miles away from their homes in South Florida. They may have remade Miami, but however comfortable it has now become, it is not and can never be Havana. It is because this seems as self-evident to most Cuban Miamians, whatever their political views, as the fact of Cuban success seems obvious to

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

non-Cubans that so little common ground has been gained in Miami over the course of the past 36 years.

But these narratives, which seem so mutually exclusive at first, actually share a central element: geography. For what sets the Cuban case apart is the brute fact of geographical proximity. The White Russians left St. Petersburg and Moscow and could not rest until they got to Berlin and Paris; the Jews were dispersed to every corner of the world, from Spain to Harbin; while the Armenians, when they fled Anatolia, wound up resettling in places as far away as Fresno, California. But the winds of exile set the Cubans down only a short distance from their homes. The break with the past was thus absolute, since between 1959 and 1979, almost no Cuban exiles were permitted to return to Cuba even for a visit, and the possibilities that have existed since then have been curtailed repeatedly. At the same time, it was as if staying in Miami—another way of staying nearby—was to remain psychically in readiness for the moment when return at last did become possible.

What sets Cuban exiles apart is the brute fact of geographic proximity.

What the Cuban exiles wrought in Miami was not the first time a refugee or an immigrant group to the United States had transformed the culture and feel of an American city. But unlike, say, the Irish in Boston or the Jews in New York, or, for that matter, the German-Jewish refugees from Nazi Germany in Hollywood or on American university campuses, the Cubans could never feel at home in Miami even as they remade it. They might have resisted early attempts by the American authorities to aid them in resettling in other parts of the United States—many of those who were persuaded to leave eventually returned—but what they were building was not so much a place they could call their own so much as a place that would stand in for the Cuba they had lost, an alternate Havana whose deepest function was to help these Cubans resist the blandishments of assimilation and give them a civic context in which they could preserve their exile status.

Of course, many Cuban exiles, particularly those who came to the United States as children, have assimilated rapidly into the American mainstream. And after 36 years, many Cuban exiles and, pre-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

dictably, many Cuban-Americans born in the United States, are not interested in returning to the island to live even if Castro were to fall. A recent *Miami Herald* poll showed that for the first time a substantial number of Cuban Miamians were willing to concede that they would not be going back to Cuba.

Nonetheless, few people of Cuban origin in Miami have been willing to describe themselves simply as Americans or to forswear the possibility, however remote, of one day returning to the island. This is in marked distinction to their relatives in the smaller but still quite substantial Cuban communities that are to be found in Los Angeles, Chicago, or the New York area. Miami Cubans may say to a pollster that they don't believe they are likely to go back for good, but they leave a bolt hole of possibility open, reserving decisions until Castro disappears from the scene.

Such a position is both very Cuban and very American. On one level, it simply reflects the fact that many people in Miami are nursing very real wounds. For the generation that left Cuba as adults, it is a question of lost property and status, of lives that had to be remade in the United States; in short, losses that could never be made good, and that could never even be imagined as being recouped except, symbolically at any rate, through Castro's fall. It has become a matter of honor to never stop hoping. For the younger generations, particularly those too young to have had any memory of life in Cuba, there was not only the archetypal exile experience of growing up in Miami hearing the tales of a lost country over the breakfast table, but the very American expectation that no destiny is definitive and no defeat permanent. To believe in return, even to believe that somehow Cubans from the exile and Cubans from the island would, once liberated from Fidel Castro, find common ground was a quintessential exercise in American optimism.

MAINTAINING SOLIDARITY

BUT IF different generations of Miami Cubans have had different sources and rationales for their adherence to the idea of themselves as a people in exile and for their unwillingness to give up the idea of return, however far-fetched they may concede it is rationally, the

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

result has been a singular uniformity in Miami. Cuban group cohesion has persisted in conditions which, historically, have tended to corrode the group cohesion of other diasporas. White Russians, for example, were incapable of surviving the combination of the persistence of the Bolshevik state in their native country and their own success in their new homelands. Perhaps, in time, a similar etiolation of identity will overcome the Cubans of South Florida as well. Certainly, many are intermarrying with non-Cubans in Miami, and while the upper echelons of the South Florida business and professional establishments remain overwhelmingly Anglo, the incoming cohorts of doctors, lawyers, brokers, and entrepreneurs are heavily Cuban in origin. But for the moment not only is the idea of Cubanness still compelling, but, in an age in which assimilation is unfashionable, the reasons for willingly jettisoning so powerful and coherent an ethnic identity are hard to discern.

Moreover, militating against even a slow atrophying of Cubanness among the younger generation of Cuban-Americans is the fact that from 1980 onward, more than 200,000 new Cuban migrants have arrived in Miami. For all the talk of Miami Cubans returning to the island after Castro falls, the movement has been almost entirely northward and is likely to remain so whatever happens on the island. Officials of the state of Florida already have contingency plans in place to deal with the mass movement of up to half a million Cubans north across the Straits of Florida in the event that the Castro regime collapses suddenly. The trend has been further accentuated by Havana's recent willingness to allow first the elderly and then almost any Cuban who can afford to do so to travel. The result of this liberalization has been to reunite, however briefly, Cubans in Miami with relatives who remained on the island after 1959, some of whom they have had no contact with for more than 30 years.

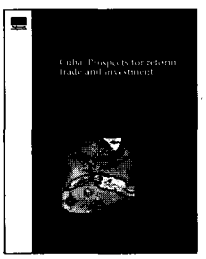
Despite all the tensions that exist between Cubans in Miami and Cubans on the island, the reality is that they know far more about each other today than they did a decade ago. Many of the recent Cuban arrivals in South Florida grew up under communism. However much they may hate Castro, neither he nor the society he engineered are figments of the imagination to them as they are to so many Cuban exiles who left in the 1960s. All of this may seem obvi-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

New from the Economist Intelligence Unit

CUBA:
Prospects for Reform, Trade and Investment

An inside look at today's Cuba and tomorrow's opportunities...enabling international companies to prepare now for the opening of the Caribbean's largest market.



Many of the changes that swept over other post-Cold War, post-Socialist countries in Europe and Asia are now taking place in Cuba. And the pace of change continues to quicken as the economic crisis persists. The Cuban government is attempting to open up the island to the outside world...to diversify trade relations and to lure foreign capital.

Certainly opportunities abound!! There are 11 million new consumers...a pent-up demand for capital goods and other equipment...and an infrastructure in need of rebuilding.

To provide you with the up-to-date, authoritative information you need to position your company to enter this potentially rewarding market, the Economist Intelligence Unit has issued a special report, **Cuba: Prospects for Reform, Trade and Investment.** Part one of this report details Cuba's political and economic outlook, and includes a review of US-Cuba relations, the country's reform strategy and its reconstruction needs. Part two assesses the foreign investment climate in Cuba specifying policy and regulatory conditions, labor issues, financing, as well as opportunities in diverse sectors such as tourism, agribusiness, mining and health care.

To help your company judge the rewards and risks of investing in Cuba, order your copy today by returning the coupon below.

Call Toll Free 1-800-938-4685
(US and Canada only)
(212) 554-0600 (rest of world)
Or fax your order to (212) 586-1181.

To: **The Economist Intelligence Unit**
The Economist Building, 111 West 57th Street
New York, NY 10019

❑ Please send me _____ copies of **Cuba: Prospects for Reform, Trade and Investment** at US$395* each.

Name _____
Title _____
Company _____
Address _____
Zip Code _____
Tel _____ Fax _____

❑ Payment enclosed of US$_____ (checks payable to the Economist Intelligence Unit)

❑ Please pro-forma invoice me (reports will be sent on receipt of payment)

❑ Please charge US$_____ to my ❑ Visa
❑ MasterCard ❑ American Express ❑ Diners Club

Acct No.: ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐

Signature: _____

Expiration Date: _____

* Add applicable sales tax in FL. , NY. , IL., CA.
In Canada add 7% GST #R 123 494 238

The Economist Intelligence Unit
The Economist Building
111 West 57th Street
New York, NY 10019
USA
Tel: (212) 554-0600
Fax: (212) 586-1181

The Economist Intelligence Unit Limited
Subscription Department
PO Box 200, Harold Hill,
Romford, RM3 8UX
United Kingdom
Tel: (44.1708) 381 444
Fax: (44.1708) 371 850

The Economist Group
(Asia/Pacific) Limited
25/F Dah Sing Financial Centre
108 Gloucester Road, Wanchai
Hong Kong
Tel: (852) 2802 7288/2585-3888
Fax: (852) 2802 7638

E·I·U
The Economist Intelligence Unit

IAAFLA

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Study Spanish in Guadalajara, and learn to understand what millions of people have to say.

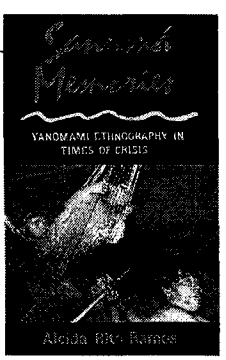
Today it's essential to be able to communicate in Spanish. Students who spend a semester, year or summer with us at the Autonomous University of Guadalajara, Mexico study Spanish at the level that suits their linguistic ability. They achieve cultural understanding by living with a Mexican family. And advanced students can look forward to taking integrated undergraduate classes in a variety of subject areas, from math to Mexican history. Call us for more information.

Study Abroad with Beaver College

1.800.755.5607

SANUMÁ MEMORIES

YANOMAMI ETHNOGRAPHY IN TIMES OF CRISIS



Alcida Rita Ramos

Based on fieldwork from 1968–1992 by the internationally known Brazilian anthropologist Alcida Ramos.

"A MASTERPIECE. This is a book both broad and deep, both historical and structural, vividly presenting individuals and placing them in the sweep of social and historical process. A major contribution is the new perspective it offers on the role of time in the organization of society."—Waud Kracke, author of *Force and Persuasion: Leadership in an Amazonian Society*

paper $19.95, cloth $50.00, available August 1995

THE UNIVERSITY OF WISCONSIN PRESS

114 N. Murray St., Madison, WI 53715 (608) 262-8782

In this monumental look at Brazil and its people Joseph A. Page explores the vivid contrasts of one of the most paradoxical places in the world.

"Page brings to life the exotic, sensuous, contrast-filled kaleidoscope that is modern Brazil."
Jeff Bingaman, U.S. Senator (New Mexico)

"This book thoughtfully summarizes the life and times of an underappreciated country... explores Brazil's complexities with nerve and a keen understanding of this important nation's problems, promise, and underlying sense of humor and irony."
Roger C. Stone, former Time Bureau chief, Rio de Janeiro.

AT BOOKSTORES NOW FROM ADDISON-WESLEY OR TO ORDER BY PHONE PLEASE CALL OUR TOLL-FREE NUMBER: 1 800-358-4566

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

ous or long overdue, but in the forced house of exile that Cuban Miami has been for so long this mingling has been transformative. A Cuban-American businesswoman whose husband fought with the exile invasion force at the Bay of Pigs told me that her views had been turned upside down by her encounters with these new arrivals. "I realize that whether I like it or not, people think differently on the island," she said. "And also, whether I like it or not, it will not be up to us in the exile to decide what happens in Cuba. We can help, but they will have to decide."

Outside Miami, such words might seem like the most perfunctory bow to reality. But in Cuban exile circles, they represent an enormous shift from what was going on in Miami as recently as two or three years ago. At that time, it was commonly assumed that the exiles' moment had arrived at last, and that the fall of the Soviet Union of necessity sooner or later would entail the fall of the Castro regime. It was impossible, as many friends of mine in Miami insisted at the time, that communism could survive in Havana when it could not survive in Moscow, particularly since the Castro regime had become so dependent on Soviet subsidies.

As things turned out, the Castro regime buckled but it did not break. Castro seems to have opted for a Chinese-style response of combining moves toward a market economy with strengthened one-party rule and continuing political repression. Obviously, the Cuban government so far has not been able to provide much in the way of real economic growth. Nonetheless, the pace of foreign investment is increasing, and the sense of beleaguerment, evident to most visitors to Havana two or three years ago, has given way to the cautious sense that things will soon begin to improve on the island.

CLINGING TO THE EMBARGO

CUBAN EXILES sustain their support for the embargo despite their growing awareness that Castro may not ever fall if things are allowed to take their present course. But their relationship to that embargo, and their participation in it, has become more contradictory. They viewed the 1992 passage of the Cuban Democracy Act, sponsored by Representative Robert Torricelli (D-N.J.), as the last nail in the coffin

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

of Cuban socialism. Yet the act contained elements that at the time seemed at odds with a measure ostensibly meant to ratchet up the pressure on the Castro regime and bring about its eventual collapse.

While the act attempted to bar foreign subsidiaries of U.S. corporations from trading with Cuba, one of the less remarked-upon provisions of the Torricelli bill was that it upgraded telephone communication between the United States and Cuba. Whereas previously anyone wanting to call Cuba had to do so through a third country (usually Canada), which notoriously was a time-consuming and frustrating proposition at best, the Torricelli bill made it possible, for the first time in decades, for people in Miami to call Havana direct and to receive collect calls from the island on a regular basis. Since the bill became law, they have been doing so with alacrity. The result, probably not anticipated by its most ardent backers, is that for many exiles and children and grandchildren of exiles there has been a psychological reconnection with the island on a very profound and complicated level. Miami Cubans are able to have their say at long last, and, as the businesswoman had implied, they have been doing a lot of listening as well.

The result of direct telephone communication has been a psychological reconnection with the island.

Such a result might have been predicted. The Castro regime is not going to be brought down by talk across the Straits of Florida. But the dreams of return that the exile community has hewed to for so long, and, more immediately, its ability to go on supporting with good conscience an embargo and other restrictions that, in the short term at least, prevent them from getting money and supplies to family members on the island, are threatened by this new circumstance. To an outsider, there would appear to be a great contradiction between the polling data that shows continuing support among Miami Cubans for a tightened U.S. trade embargo and the obsession with telephoning relatives (and, for that matter, of surreptitiously sending money to Cuba, something that is being done in Cuban Miami on a wide scale) that grips many in the exile community. After all, the liberalized telecommunications sanctioned by the Cuban Democracy Act led to an agreement between American phone carri-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

ers and the Castro regime that gives the Cuban government a dollar royalty for every call placed from the United States to Cuba and something more than that for every collect call placed from Cuba to the United States. It seems almost perverse to deny the Castro regime the dollars Cuban-American visitors might bring with them on visits while simultaneously sanctioning very large transfers based on the new phone links.

Some cynics, in Miami, Havana, and elsewhere, attribute the communications exception to the influence of Jorge Mas Canosa. Mas Canosa is the director of the Cuban-American National Foundation, the largest and most influential Cuban-American group. He is also the head of a construction company called Church and Tower that has done a considerable amount of work for AT&T. And yet there is no evidence, for all the rumors that have surrounded Jorge Mas throughout his career, that his stated reason and that of the foundation, as it is universally referred to in Miami, for supporting more communication between Miami and the island was not in fact the salient one: that such contacts would lead to an undermining of the Castro regime in the mind of ordinary Cubans—an outcome far more critical for Mas Canosa, whose political ambitions in a post-Castro Cuba even his enemies concede to be genuine, rather than any transitory business advantage.

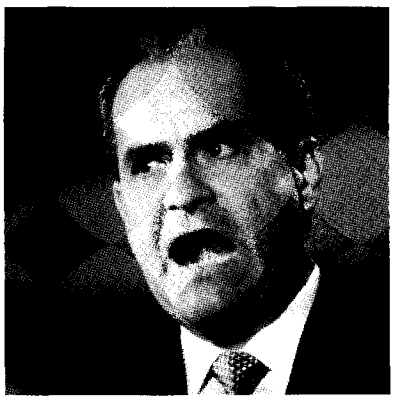
BIPARTISAN POLITICAL CLOUT

IN ANY case, the foundation was instrumental in lobbying for the passage of the Cuban Democracy Act. Indeed, it was after a meeting with foundation officials during the 1992 presidential campaign that candidate Clinton endorsed the Torricelli bill. Such an outcome was anything but a foregone conclusion at the time. A number of senior officials within the Bush administration had expressed grave doubts about the legislation. For Commerce and State Department officials in particular, the prospect of a bill that reasserted the authority of American law over the business of foreign subsidiaries of U.S. companies seemed to subvert 30 years of effort all precisely directed to get foreign governments to treat these U.S. subsidiaries no differently than the domestic corporations in the countries in which they were

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

located. But pressured by Clinton's endorsement of the bill, and unwilling to risk the ire of the overwhelmingly Republican Cuban-American voters who were critical to his chances of winning Florida in the 1992 election, President Bush soon declared that he too supported the legislation.

This was hardly the first time that either Mas Canosa or the Cuban-American National Foundation had demonstrated their influence on the national level, but it was a particularly striking exhibition nonetheless. The lesson it seemed to demonstrate was that where Cuban policy was concerned both national parties would bow to what they perceived the wishes of the Cuban exile community to be. More than that, by bringing both the Republican incumbent and the Democratic nominee into line, the foundation once more demonstrated both to Cuban Miami and to the country at large that it had been accepted in Washington as just as much the legitimate institutional representation of the Cuban-American community as the mainline American Jewish organizations—on which, in its inception, the foundation had quite consciously modeled itself—were for the American Jewish community.



MARTIN SIMON/SABA

Such a perception, however much Mas Canosa's enemies may choose to claim otherwise, is anything but misplaced. Mas Canosa is a controversial figure, even in Miami. It is common in South Florida to encounter Cubans who are either agnostic about Mas Canosa's leadership or even bitterly critical of it who still insist that if Cuban exiles have a voice about U.S.-Cuban relations the credit must go to the foundation, whatever else can be said about its influence over Miami or its political program for a post-Castro Cuba

The crux of the matter, however, is that these accomplishments are now largely in the past. The foundation remains recognized in Washington as the voice of Cuban Miami. The problem is that its voice counts for much less today than it did even a year ago, let alone during the halcyon days of the Reagan administration. The new situation that the foundation in particular and the Cuban exile community in

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

general have been confronted with is that they are no longer preaching to the choir. There are many people in Washington who believe that it is time to try another tactic with Cuba, and more who simply feel that in the wake of the end of the Cold War, Cuba is not that important one way or the other. Meanwhile, many in the business establishment are furious with the prospect of Canadian, European, and Latin American investors moving into Cuba on a large scale so that, when Castro does eventually fall or pass from the scene, American business will be too late.

THE END OF EXILE

THE CHANGED stance of the Clinton administration is an indicator of that change. The same administration that is in practical terms responsible for the success of the Torricelli bill has firmly opposed Senator Helms' recent effort to further toughen the embargo. The biggest concern, apparently, has been that the Helms bill violates various foreign trade agreements. But in fact the same could have been said of the Torricelli bill.

Far more significant, of course, has been the administration's decision in effect to repeal the Cuban Adjustment Act of 1966. Faced last year with the movement of more than 40,000 Cuban boat people toward Florida, the Clinton administration broke with both law and tradition and refused to allow the refugees to enter, instead interning them at the U.S. base in Guantánamo Bay, Cuba, alongside Haitian boat people. This decision stupefied Cuban Miami. Without warning, their special status had been removed. Their relatives, instead of being viewed by the U.S. government as refugees from Castro's tyranny, were being treated as another bunch of refugees clamoring at the gates of an America increasingly unwilling to accept any more illegal migrants.

In fact, before making this decision, the administration consulted not only the Governor of Florida, Lawton Chiles, but Jorge Mas Canosa and other officials of the Cuban-American National Foundation, who reluctantly went along with the decision. The administration accompanied its decision with severe new restrictions on travel to Cuba by Cuban-Americans, and the sending of remit-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

tances—something the foundation had been urging for some time. Nonetheless, even this concession was unimportant compared to the radical break of the decision to treat Cubans trying to get to the United States as ordinary migrants. Many in Cuban Miami chose to believe that this policy was only a temporary response to an emergency and claimed that, by allowing the migrants to leave Cuba, Castro had manipulated the whole affair.

A million Cubans out of 11 million on the island would leave if given the opportunity.

Doubtless, in a sense he had. But by the same token, the Clinton administration understood perfectly well that he was in a position to do so again any time he chose to, since by a conservative estimate at least a million Cubans out of the 11 million on the island would leave if given the opportunity. Some Cuban Miamians and their sympathizers in Congress called for a U.S. naval blockade that would simultaneously prevent further mass migration and—they claimed—finally bring Castro down. Sensibly enough, the Clinton administration, understanding the political risks of further mass migration in an election cycle in which immigration would play a major role, preferred to negotiate with Havana. The result was the worst possible outcome from the perspective of the Cuban exiles. Most of the 22,000 Cubans in Guantánamo would be allowed into the United States (in fact, many from the exodus had already been admitted, despite Attorney General Janet Reno's claim at the time that no one would be), but henceforth all Cuban migrants taken at sea would be returned to Cuba, exactly as was routinely done with Haitians. On May 10, six days after the new policy was announced, 13 Cubans who had been picked up a few days earlier were returned by a U.S. Coast Guard cutter to the Cuban naval base of Bahia de Cabanas, 40 miles from Havana.

The idea that the first element of the American military to dock at a Cuban port would do so not as part of the effort to unseat Castro but in order to return Cuban migrants incensed many in Cuban Miami. "This is a day of infamy for the United States," said Francisco Hernandez, the titular president of the Cuban-American National Foundation. The U.S. military, he added, "have failed in their duty to protect the defenseless and attack the aggressor." The following

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

day, there were demonstrations in Miami, but mostly, among the less politically mobilized, there was a devastating sense of shock. For it was clear that whatever Cubans in South Florida believed, the Clinton administration was declaring that the 36-year-old collaboration between the U.S. government and the Cuban exile community was over. Cubans would be considered an ethnic group, one whose original members had come as political refugees, but whose relatives were immigrants for whom no special treatment would be accorded. In other words, for Washington the exile was over.

Doubtless, there are other shocks to come. The most likely is an increasing effort by American business interests to begin to get the trade embargo loosened. It may well fall on receptive ears. Clearly, the Clinton administration is no longer politically afraid of Cuban Miami. And if there is anything that has marked the administration's foreign policy, it has been its commitment to furthering American trade interests whenever possible. There is no question that many major American corporations have already done feasibility studies and considerable market research for a return to Cuba, and it seems only a matter of time before they begin to put pressure on the administration to make such a return possible.

The gloom and self-criticism that is pervasive in South Florida at the moment may in fact be the beginning of a new realism among Miami Cubans. This is not to say that the dream of return will, or even should, disappear immediately, or that Cuban-Americans will segue from thinking of themselves as a community whose core identity is that of political refugees to that of an American ethnic group. The faith of the exile in the possibility of a mass return to Cuba was always a race against time and mortality. And that actuarial battle, far more important than any ever waged in Washington, is being lost. In any case, it is important that Cuban-Americans confront what a minority within the community has always insisted: namely, that, in reality, it was less that Washington had been swayed by Miami so much as it had been that Washington had used the exile for various Cold War purposes. In any case, the Cold War is over, and, more likely than not, the exile is as well. And this may be as positive a development in terms of Miami as it is in terms of Washington's relationship with Havana, or for that matter, the future of the island itself.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

East Asian Security

The Case for Deep Engagement

Joseph S. Nye, Jr.

IT HAS become fashionable to say that the world after the Cold War has moved beyond the age of power politics to the age of geoeconomics. Such clichés reflect narrow analysis. Politics and economics are connected. International economic systems rest upon international political order.

Consider East Asia 20 years ago. The United States was withdrawing from Vietnam, and many observers predicted that widespread instability would follow a broader American withdrawal from the region. Compare those gloomy predictions with the stable and prosperous East Asia of today.

There are a number of reasons for East Asian prosperity, including high savings rates and successful macroeconomic policies. But among the important and often neglected reasons for East Asia's success are American alliances in the region and the continued presence of substantial U.S. forces. Our national interests demand our deep engagement in the region. We back up that engagement with our steadfast commitment to sustain a forward military presence of about

JOSEPH S. NYE, JR., is Assistant Secretary of Defense for International Security Affairs. He is a former Chairman of the National Intelligence Council and a former Director of the Center for International Affairs at Harvard University.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

100,000 American troops in East Asia, of whom 36,000 stand by our ally the Republic of Korea, while 47,000 demonstrate our commitment to regional security and the defense of Japan. The U.S. presence is a force for stability, reducing the need for arms buildups and deterring the rise of hegemonic forces.

Political order is not sufficient to explain economic prosperity, but it is necessary. Analysts who ignore the importance of this political order are like people who forget the importance of the oxygen they breathe. Security is like oxygen—you tend not to notice it until you begin to lose it, but once that occurs there is nothing else that you will think about.

East Asia is currently the world's most dynamic economic region. Asia and the Pacific (excluding the United States) are expected to account for about one-third of the world's economic activity at the start of the next century. Instead of looking back 20 years to 1975, we should look forward 20 years. Will there be a political order and security framework that will sustain this impressive economic growth, or will the stable expectations of entrepreneurs and investors be subverted first by costly arms races and then by armed conflicts?

History shows us that periods of the rise and fall of great powers are often times of great instability in international state systems. As Thucydides wrote nearly 2,500 years ago, the real cause of the Peloponnesian War was the rise in the power of Athens and the fear that created in Sparta. Similarly, an emergent France was the cause of turmoil in early nineteenth-century Europe, and one of the underlying causes of World War I was the fear that Germany's rise created in its European neighbors. The international power structure in East Asia today is marked by the rise and fall of great powers. Within the last decade, the Soviet Union declined and collapsed. Russia is currently preoccupied with internal change, but it remains an important regional power. Also during this period, Japan's growth has continued, and China has begun to transform its economy.

If China's recent growth rates continue, it will become the world's second-largest economy soon after the turn of the century. Its military strength will also naturally increase. Even if China does not increase its defense budget as a percentage of its GNP—about four to five percent of GDP, according to most estimates—the sheer magnitude of the rise in China's GNP means that impressive military capa-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

bilities will accompany its economic growth. How the international system adjusts to the rise of Chinese power, the eventual rejuvenation of Russia, the evolving role of Japan, and the tensions on the Korean peninsula will be critically important to the future of East Asian stability and prosperity.

ALTERNATIVE STRATEGIES

IT IS interesting to compare the post–Cold War strategic situation in East Asia with that in Europe. In both regions, the American alliance structure survived the demise of the Soviet Union. In neither region is there a demand that the Americans go home. Quite the contrary. In the Pacific, the Americans have alliances with five countries, and three of them (Australia, Japan, and South Korea) provide access to significant facilities that enable us to fulfill our commitments in the region and beyond. In both Europe and Asia, while there have been reductions in the numbers of American troops, roughly 100,000 troops remain in each case. Unlike Europe, however, there is no web of multilateral institutions tying countries together in Asia. In Europe, the European Union has bridged the enmity between France and Germany that caused three wars in a century. Similarly, NATO remains a strong multilateral alliance. Anyone who thinks that the end of the Cold War and the demise of the Soviet Union have made NATO obsolete has not heard what political leaders in Paris, Bonn, Warsaw, or Prague have been saying publicly and often. By comparison, multilateral institutions in East Asia are relatively weak. At this point, the United States is the only global political and economic power in the region—a situation that will likely change over time.

A dispassionate analyst could identify at least five major strategic alternatives for the United States in East Asia. One would be to withdraw from the region and pursue a hemispheric or Atlantic-only strategy. Few people take this option seriously. History, geography, demographics, and economics make the United States a Pacific power. Four of our states border on the Pacific, and one is surrounded by it. American citizens on three Pacific island territories—Guam, American Samoa, and the Commonwealth of the Northern Marianas—live closer to Asian capitals than to Washington. The increas-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

ing number of Americans who trace their ancestry to the Asia-Pacific region—over eight million—is another indicator of America's connection to the region. American trade with the Asia-Pacific region stands at nearly $400 billion and accounts for nearly three million United States jobs. To cut ourselves off from such an area of economic dynamism would be foolish strategy indeed.

A second option would be for the United States to withdraw from its alliances in the region on the grounds that the Cold War is over. This strategy would let normal balance-of-power politics take the place of American leadership. The United States could try to play one state off against others. Some believe that this would be the lowest-cost option for the United States. In practice, however, such an approach would be both costly and destabilizing. The structure of power in East Asia is not a stable balance where the United States could or would want to mechanically adjust its relations between countries. East Asian reactions to the balance-of-power approach would likely lead to a regional arms race. Ironically, this would make U.S. participation in the region more costly and more dangerous as the United States had to balance the new and enhanced forces that would be created. And the United States would absorb these costs without the benefit of burden-sharing from Asian allies, which now reduces our costs by over $5 billion per year. Moreover, such a strategy would ignore and indeed waste the valuable investments we have made in existing relationships in the region.

A third option would be for the United States to try to create loose regional institutions to replace its structure of alliances in East Asia. Such regional security institutions could perhaps supplement the U.N. system. But effective regional institutions are not quickly and easily created under any circumstances. The European Union has taken more than four decades to mature from the early days of the Monnet plan, and East Asia has not even reached that early stage. Ancient enmities, which antedate the Cold War, have not been overcome. Countries in the region would see such institutions as analogous to the League of Nations—promising, but not sufficient to provide a real sense of security. A number of countries have told us that they suspect that the creation of such institutions might be a screen behind which the United States would retire from the region. A

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

regional institutional strategy alone could not provide a sufficient framework for security.

A fourth hypothetical alternative would be to create a NATO-like regional alliance. An analogy to the European institutional framework, however, would be a mistake because the new alliance would be seen as aimed at Russia or China. Russia's future role in the region is highly uncertain, and it is wrong to portray China as an enemy. Nor is there reason to believe China must be an enemy in the future. Some regional experts believe China will be aggressive outside the Chinese cultural area; others do not. In the face of uncertainty among the experts, suppose that we simply posited a 50 percent chance of an aggressive China and a 50 percent chance of China becoming a responsible great power in the region. On this hypothesis, to treat China as an enemy now would in effect discount 50 percent of the future. Moreover, a containment strategy would be difficult to reverse. Enmity would become a self-fulfilling prophecy. The Clinton administration's policy of engagement is a far better approach to dealing with emerging Chinese power.

The fifth option is U.S. leadership. The Clinton administration has decided that this is by far the best alternative for both the United States and countries in the region. Indeed, that is the message we receive from countries there.

THE LEADERSHIP STRATEGY

EARLIER THIS year, the Department of Defense published *United States Security Strategy for the East Asia Pacific Region,* which spelled out the security details of President Clinton's strategy of engagement and enlargement. The response in East Asia has been strongly positive. Singapore's government "welcomed the report," and its Chinese-language newspaper, *Lianhe Zaobao,* wrote, "This is not only the role Asia-Pacific countries want the United States to play, but also the best means by which the United States can safeguard its interests in the region." Hong Kong's *South China Morning Post* said, "Washington deserves praises, and gratitude, for maintaining its commitments in Asia."

There are three parts to the American security strategy for East Asia. Reinforcing our alliances to identify their new basis after the

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Cold War is at the heart of the strategy. Some people believe that alliances cannot deal with a foe called uncertainty. "How many divisions does uncertainty have?" one skeptic has asked. But, as is wisely appreciated in the region, the skeptics are too clever by half. The problem is not the divisions that uncertainty has but the divisions that uncertainty can create.

The second component of the U.S. strategy is to maintain our forward-based troop presence. That is why the Pentagon report called for a halt to the reductions planned in the more euphoric phase of the early post–Cold War period. The immediate security problem in the region comes from Pyongyang. North Korea is a clear and present danger. Not only is it on the brink of a nuclear weapons capability, but it also has 1.1 million men under arms, with two-thirds of them deployed along the Korean demilitarized zone. Moreover, it is developing a new generation of ballistic missiles. The framework agreement negotiated by the Clinton administration last October has frozen North Korea's nuclear program and provides for its dismantlement. Over time, it holds the promise of a peaceful resolution of tensions on the peninsula. But it will take a decade or more for the agreement to be fully implemented, and there are many pitfalls along the way. In such circumstances, it would be a serious mistake to withdraw American troops from the region. Beyond North Korea, our presence ensures the United States a seat at the table on Asian issues, makes good U.S. commitments to ensure that trade flows freely in and out of the region, and enables us to respond quickly to protect our interests not only in Asia but as far away as the Persian Gulf.

The third dimension of the strategy is to develop regional institutions. These bodies are not designed to supplant or unify American alliances but rather to be a confidence-building measure for the region. In short, they are to complement American alliance leadership, not to replace it. They open the prospect for an institutional evolution in the region over a longer period. In the economic area, the Clinton administration has made major efforts to develop and strengthen the Asia-Pacific Economic Cooperation forum. In the security area, it has offered support for the Association of Southeast Asian Nations Regional Forum (ARF). In addition, the administration is developing bilateral security dialogues with many countries in

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

the region including China, Russia, and the countries of Southeast Asia. Some of these dialogues may evolve in a multilateral direction. For example, the administration has encouraged nongovernmental talks among the Northeast Asian countries in an effort to develop a Northeast Asian security dialogue. Such multilateral activities will complement our bilateral ties. For the next decade, however, we see no superior strategy than one that involves a commitment to direct U.S. leadership in the Asia-Pacific region.

LEADERSHIP'S CRITICS

IT IS POSSIBLE to imagine a number of objections to this leadership strategy. First and foremost is the view that it simply cannot be implemented. In a world without a Soviet enemy, some argue, there is no basis for the old alliances that are the heart of the strategy. We hear the same criticism from those who want to dismantle NATO. In this new world, so the argument goes, military alliances are anachronisms best left to the pages of Cold War history. But the critics fail to realize that alliances can be rebuilt for a post–Cold War era.

Japan is now in the process of formulating its own choices for a post–Cold War strategy. In theory, Japan has a variety of options. One is simply to follow the old policy of "economism," but Japan has become too large to ignore its impact on the international political system. Most Japanese leaders are aware that the strategy that served them so well for the past four decades is no longer viable. Another strand of Japanese opinion seeks a U.N.-based strategy. A number of Japanese critics, however, have pointed out that while the United Nations may be an essential part of a strategy, it alone cannot suffice, given its problems as an institution. A third prospect would be for Japan to become a "normal country" with an independent military capability. A minority of voices are heard backing this idea. Some even advocate a nuclear-armed Japan. But as Japanese analysts have looked more closely at this strategy, they have found that it would become enormously expensive if Japan had to respond if its neighbors reacted by building up their armaments.

Instead, Japan has reaffirmed the option of maintaining the U.S. alliance, while working with us to tailor it to the post–Cold War period.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

American Council for

The United Nations University

4421 Garrison Street, N.W.
Washington, D.C. 20016 - 4055
Telephone and FAX (202) 686-5179
E-MAIL: JGLENN@IGC.ORG

KEEP UP-TO-DATE ON GLOBAL RESEARCH

Return the form below and become an Associate Member of the American Council for the United Nations University.

The AC/UNU provides a point of contact between Americans and the United Nations University (UNU). The UNU is the principal academic research organ of the U.N. which can focus intellectual resources from all nations on world problems. Having scholars on its governing council rather than nations and funding its programs through an endowment helps ensure academic autonomy. This post-graduate non-degree granting research and training institution does not have professors or students. Instead, it is a world-wide network of scholars whose purpose is to develop options for the solution of problems that require truly international collaboration.

The AC/UNU is ***THE*** non-profit organization (501)(c)(3) that helps support the UNU in the U.S. It:

★ Helps connect American graduate research with UNU's programs around the world;

★ Produces a newsletter sharing UNU's research in nutrition, technology, economic development, software, natural resources, biotechnology, and futures research. It announces new projects, books, conferences, and research reports;

★ Provides speakers on UNU's research, global futures, and the United Nations system;

★ Offers non-paid internships (usually for college credit) in the work of the AC/UNU;

★ Responds to individual American inquiries for UNU's research;

★ Promotes the independence of the UNU as an academically free institution;

★ Gives general support in the United States for the UNU and its permanent institutes around the world.

★ Coordinates the Millennium Project with support from UNU/WIDER, U.S. EPA, UNDP, and UNESCO. The Millennium Project is a decentralized global network of futurists and scholars to assist in organizing futures research to continuously up-date and improve humanity's thinking about the future, and make that thinking available through a variety of media for consideration in public policy, advanced training, public education, and systematic feedback. Its reports are available on Internet Gopher futures.wic.epa.gov.

★ Offers Associate Membership in the AC/UNU. Associate Members receive UNU annual reports, UNU's *Work in Progress*, *AC/UNU Newsletter*, book catalogs, and other UNU documents depending on the interests you indicate below. Make your check for annual dues of $50 payable to the AC/UNU.

Name_____ Interests_____

Address_____ _____

_____ _____

_____ _____

Return to: AC/UNU, 4421 Garrison Street, N.W., Washington, D.C. 20016-4055.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Nationalism and Nationalities in the New Europe

EDITED BY CHARLES A. KUPCHAN

The Cold War's end has unleashed nationalist sentiments across Europe and the former Soviet Union. This book examines where this wave of nationalism has come from and how best to respond to it. "The authors are leading experts and have written thoughtful and interesting essays."—MICHAEL E. BROWN, Harvard University
$37.50 cloth, $14.95 paper

International Organizations and Ethnic Conflict

EDITED BY MILTON J. ESMAN AND SHIBLEY TELHAMI

This volume clarifies the changing role of international organizations in an increasingly fragmented world. "A timely, insightful and informative discussion of an issue of continuing public importance and intellectual interest." —CARL KAYSEN, Massachusetts Institute of Technology
$47.50 cloth, $16.95 paper

Ethnic Politics

MILTON J. ESMAN

Esman focuses on ethnic mobilization and the management of conflict, on the ways ethnic groups prepare for political combat, and on measures that can moderate ethnic disputes. "[His] approach is judicious, balanced, [and] persuasive."—M. CRAWFORD YOUNG, University of Wisconsin, Madison. $37.50 cloth, $14.95 paper

On the Subject of "Java"

JOHN PEMBERTON

In this ethnographic and historical interpretation of cultural discourse in Indonesia since 1965, Pemberton considers how the appearance of order under Soeharto's repressive New Order regime is an effect of an enigmatic politics founded upon routine appeals to cultural values.
$42.95 cloth, $17.95 paper

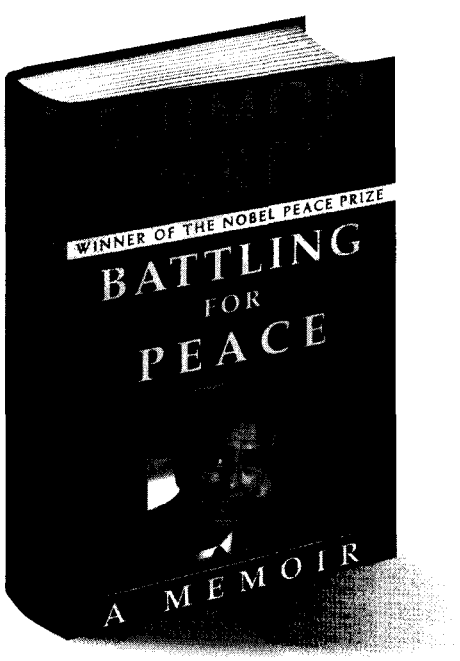
At bookstores, or call
(607) 277–2211

Cornell
UNIVERSITY PRESS
Sage House • 512 East State Street • Ithaca NY 14850

THE CANDID MEMOIRS OF ONE OF THE GREAT STATESMEN OF OUR TIME.

Shimon Peres, foreign minister of Israel and winner of the 1994 Nobel Peace Prize, reveals the inside story of the Oslo negotiations, the origins of Israel's nuclear program, and his role in masterminding the Entebbe raid. His revealing memoirs provide a unique insider's view of Israel's turbulent history.

"Mr. Peres is a master of the telling detail that both captures the moment and entrances the reader....Combines a well-argued political analysis with elegant prose."
—*The New York Times Book Review*



RANDOM HOUSE

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Last summer, a nongovernmental commission chaired by Higuchi Hirotaro, a business leader, gave the Japanese prime minister its recommendations for a Japanese security strategy for the post–Cold War period. This report will probably foreshadow the official governmental strategy in the future. The report bases future Japanese strategy on the U.S. alliance while strengthening Japan's responsibilities in the global arena to include participation in the United Nations. Just a few years ago, Japan found it almost impossible to engage in U.N. peacekeeping operations. Since the Diet's passage of the peacekeeping law in 1992, however, Japan has engaged in three significant international activities—in Cambodia, Mozambique, and Rwanda—and is now considering participation with U.N. observers on the Golan Heights. In short, Japanese attitudes are evolving.

That is why the Defense Department is engaged with Japan in a year-long intensive security dialogue. The dialogue does not involve changes in the Japanese constitution or the U.S.-Japan security treaty; rather, it seeks to align our views so that the strategies followed by the United States and Japan can be complementary in the post–Cold War period. This security dialogue has focused on three different areas. First, there are bilateral issues involved in the defense of the Japanese homeland. This includes such questions as the Okinawa bases, host-nation support, supply and acquisition services, and so forth. The second area involves discussions of regional forecasts and strategies: how each of the two countries sees the evolution of stability in the region. The third part relates to our respective involvement in global issues of peacekeeping and humanitarian missions. Here, the United States has indicated its willingness to be supportive to the extent that Japan desires such support. Our experience thus far suggests that it will indeed be possible to establish a firm basis for a U.S.-Japan security relationship even though the Cold War is over and the Soviet Union is no longer the identifiable enemy.

A second objection to the strategy of American leadership is that the United States cannot afford it. Some argue that the cost of keeping troops in Asia is undercutting economic security at home, which is rightly seen as the foundation for all else that the country does. But such an argument rests on a faulty premise. Removal of troops from Asia would only save money if they were cut from the U.S. force. If

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

the United States decided that it wanted to have a smaller military and a smaller defense budget, some money might be saved. But that does not reflect the current consensus of maintaining a defense budget of roughly $250 billion. That budget was designed as a result of the Pentagon's 1993 "Bottom-Up Review" to enable the United States to deal with two major regional conflicts nearly simultaneously. U.S. troops in Asia are a vital element in this equation. Last October, when Iraqi President Saddam Hussein moved troops southward in the Persian Gulf at the same time that the North Korean negotiations looked like they might break down, the prospects depicted in the review became all too realistic.

The United States would save very little by removing its troops from Asia.

Given the broad consensus between the administration and Congress about the resources required for our defense, the United States would save very little by removing troops from Asia. In fact, because of the host-nation support provided by Japan and South Korea, it is cheaper to base the forces in Asia than in the United States. Japan pays nearly all the yen-based costs of the 46,000 American forces, or nearly 70 percent of the troops' overall costs. If those troops were moved back to American bases, the cost of their maintenance would rise rather than fall.

Some critics claim that the United States cannot afford such a leadership strategy in a broader sense. They argue that the United States needs to use its security leverage to cure its trade imbalance. "Why should U.S. troops serve indefinitely as the security guards of an East Asian co-prosperity sphere from which many American products are effectively excluded?" asked Michael Lind in *The New York Times*. The problems of the overall trade imbalance are serious, and the Clinton administration is addressing both their macroeconomic and structural causes. But the reduction of the trade deficit depends primarily upon our domestic savings rate and the budget deficit. As the president's 1995 Report on Trade Policy Agenda notes, "Trade policy has a lot to do with the composition of trade: who produces what, where. It has little to do with the size of the overall trade balance, which is primarily determined by larger macroeconomic forces."

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

To say macroeconomic causes are basic is not to say they are the only cause. Structural barriers also matter. The United States must continue to push Japan to open its markets. Moreover, protecting American citizens and corporations is a legitimate government role. Opening Japanese markets is part of fair play. Even if Japan agreed to all our demands about market opening, however, America's overall trade deficit would persist unless our domestic savings and budget deficits change. In other words, the tradeoff with security is a false dilemma.

Threatening to remove American security assurances might force Japan to make trade concessions in the short run. But not only would it fail to solve the problem, it would also encourage Japan to alter its long-term strategy so that it would be free from such pressures in the future. In the long term, the United States and Japan have a balanced, interdependent security relationship. We each need the other to protect our national interests and meet our security goals. Japan provides forward bases for the American presence and serves as the cornerstone of our security strategy for the entire region. Because of our long-term symmetrical interdependence, tactical efforts to leverage our security relationship would cost both countries greatly and jeopardize the broadly held long-term interests of the American people in a stable East Asia.

As President Clinton has said, our relationship with Japan is like a three-legged stool made up of the security, economic, and political legs. To keep the stool balanced, we must pay attention to each leg. But in the same way the seat of the stool joins the legs together, we cannot completely divorce the three components of our relationship, just as using one leg of the stool against another will cause the stool to tip. Linking security to trade as a tactic for short-term gain risks the overall relationship. As we try to work out problems with each leg, we must keep in mind the strategic linkage that holds the relationship together. Ultimately, problems related to trade can undermine security, just as security problems can undermine trade and prosperity. Just as we can argue with our European allies and Canada over serious issues of trade without damaging our overall relationships, we wish to ensure our relationship with Japan is strong and mature enough to withstand the trade disputes that are inevitable among democracies.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

A fourth objection to the American leadership strategy is that East Asia will simply use us and then later exclude us. Such critics see the United States as unable to compete economically in the long run. If one looks at the capabilities of the American economy and the rise in manufacturing productivity over the last decade, there is no reason to be so defeatist. Moreover, when one looks at reactions in the region, it is unlikely that the United States will be excluded. For example, when Malaysian Prime Minister Mahathir bin Mohamad proposed an East Asian Economic Caucus that excluded the United States, he found that other Asian countries were leery of excluding the United States. It did not take long for Asian analysts to realize that if they excluded the United States from the region economically, the United States would probably withdraw its security presence, and they would therefore lose the basis for stability and prosperity in the region. The linkage between economics and security is more effective as a strategic reminder in the back of leaders' minds than in a short-term, tactical sense. In other words, the U.S. security presence helps our economic presence. Moreover, as interdependence grows, stronger transnational ties between the United States and the East Asian economies will make it difficult for East Asians to exclude us.

Finally, some critics charge that the Clinton administration has no strategy for China. That is simply wrong. The Clinton administration has a strategy for China that is based on engagement. There is a dialogue with China on a broad variety of fronts, and some security areas have progressed quite well. For example, China has made important progress in the past few years regarding the proliferation of weapons of mass destruction. China is a member of the Nuclear Nonproliferation Treaty and has indicated its support for the Comprehensive Test Ban ratification in 1996. In addition, China has participated in a number of related multilateral regional dialogues. Secretary of Defense William Perry visited China last year, not to transfer technology or weapons, as in the 1980s, but to establish a new agenda of security and military contacts with China. His discussions included defense conversion, confidence building, and transparency in the region. As a result, the Defense Department sent representatives to China to explain the basis of our strategy and budget, and China reciprocated with a similar visit to the Pentagon. The

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

administration feels that its current security agenda is the proper way to approach China and that engagement is the best strategy.

A VERY LONG ENGAGEMENT

THE ADMINISTRATION'S East Asia strategy report is a strong, unswerving statement that we will remain engaged in Asia. The identification of a stable level of troop strength is not meant to perpetuate the Cold War. It represents the current reality in the region. The report's 1990 predecessor laid out a ten-year plan for phased cuts in America's strategic posture and emphasized burden-shifting to allies, partly in an effort to placate a Congress that sought to bring the troops home. Regrettably, the effort to persuade Congress came at the risk of alarming Asians. Two years later, a second strategy report had to deal with a greatly changed strategic environment characterized by the collapse of the Soviet Union, the end of the Cold War, North Korea's membership in the United Nations, conclusion of a joint denuclearization agreement with South Korea, Pyongyang's signing of an International Atomic Energy Agency safeguards regime, and U.S. withdrawal from Philippine bases. In spite of the report's best efforts, it was impossible to reassure Asians that the United States was a great power with a strong determination to stay in the region. The new East Asia strategy report has succeeded in focusing the debate on the dimensions that matter: what is in the U.S. interest and how it should be achieved.

The answers to these two key questions are found in the unilateral, bilateral, and multilateral aspects of the administration's policy. Unilaterally, we must maintain a bipartisan consensus on our forward presence in East Asia. Forty years ago, Senator Arthur Vandenberg urged a bipartisan approach to our dealings across the Atlantic, advocating "a mutual effort, under our indispensable two-party system, to unite our official voice at the water's edge." Today, we should develop that consensus at the Pacific's edge.

Bilaterally, we must maintain and strengthen the mutually beneficial security arrangements we have with our allies. These have withstood the test of wars and the trials of peace. We have emerged from the Cold War with strong security arrangements that continue to have

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

relevance, such as the early warning and intelligence facilities the United States shares with Australia. It is in America's interest to maintain the alliance structure with countries like Japan and South Korea because these relationships are the basis for regional stability. The 1995 East Asia strategy report echoes these conclusions from earlier Pentagon reports not out of nostalgia or a lack of creativity but because of the importance of alliances in a strategy based on American leadership.

Finally, the current East Asia strategy report places a new emphasis on multilateral security dialogues. The 1990 report noted, "Our friends and allies in East Asia are reluctant to enter into multilateral consultations on security concerns for a variety of reasons." Since then, the Association of Southeast Asian Nations has taken strides to develop a regional sense of community. In 1993, they developed the ARF, which met for the first time in 1994. We support the ARF as an important step toward building confidence and promoting communication between nations in the Asia-Pacific region. Such multilateral activities complement our bilateral ties, but they do not diminish, nor can they replace, these important bilateral relationships.

The United States is committed to lead in the Asia-Pacific region. Our national interests demand our deep engagement. For most countries in the region, the United States is the critical variable in the East Asia security equation. The United States is not the world's policeman, but our forward-deployed forces in Asia ensure broad regional stability, help deter aggression against our allies, and contribute to the tremendous political and economic advances made by the nations of the region. The concerns about American withdrawal heard today were voiced 20 years ago as well, after the Vietnam War. For the security and prosperity of today to be maintained for the next 20 years, the United States must remain engaged in Asia, committed to peace in the region, and dedicated to strengthening alliances and friendships. That is what we propose to do.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

East Asian Security

The Pentagon's Ossified Strategy

Chalmers Johnson and E. B. Keehn

AMERICAN TROOPS are still in South Korea 45 years after the outbreak of the Korean War, five years after the end of the Cold War, and five years after Russia and China—South Korea's former aggressors—gave it official recognition. But is the American military, deployed largely as it was during the Cold War, still needed in East Asia today?

The Department of Defense answered that question in a report, supervised by Assistant Secretary of Defense Joseph S. Nye, Jr., and released in February, entitled *United States Security Strategy for the East Asia-Pacific Region.* In a cover letter, Secretary of Defense William Perry wrote that the DOD strategy reports of 1990 and 1992 "envisioned post–Cold War troop reductions in the region through the end of the decade. This year's report, by contrast, reaffirms our commitment to maintain a stable forward presence in the region, at the existing level of about 100,000 troops, for the foreseeable future."

The Department of Defense, in effect, has declared that nothing essential has changed in East Asia and that U.S. policy should be to freeze relations in the Pacific indefinitely. To many East Asians, such

CHALMERS JOHNSON is President of the Japan Policy Research Institute and author of *Japan: Who Governs?* (W. W. Norton, 1995). E. B. KEEHN is University Lecturer in Japanese Politics at the Japan Research Centre, Cambridge University.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

a policy shows that Americans do not comprehend how hollow their superpower pretensions are and that Japan and China have a few years to consolidate their ascendancy before telling the Americans that they are no longer even marginally useful. The DOD report also ignores the profound shifting around the world, particularly in East Asia, from military to economic power. Moreover, the maintenance of U.S. troops in Japan and South Korea at a cost of more than $35 billion a year is a politically potent issue in America, where many believe both Asian nations have the economic resources to build and maintain sufficient defense forces.

Nye's opening metaphor has been picked up by officials throughout the administration. "Security is like oxygen," the report begins. "You do not tend to notice it until you begin to lose it. The American security presence has helped provide this 'oxygen' for East Asian development." The report then postulates:

> —For the security and prosperity of today to be maintained for the next 20 years, the United States must remain engaged in Asia, committed to peace in the region, and dedicated to strengthening alliances and friendships.
>
> —A continuing United States security presence is viewed by almost every country in the region as a stabilizing force.
>
> —Japan and the Republic of Korea contribute to regional as well as their own security when they provide generous host-nation support for United States forces.
>
> —United States interests in the region are mutually reinforcing: security and growth make it more likely that human rights will be honored and democracy will emerge, and democratization makes international conflict less likely because democracies are unlikely to fight one another.
>
> —In thinking about the Asia-Pacific region, security comes first, and a committed United States military presence will continue to serve as a bedrock for America's security role in this dynamic area of the world.
>
> —The Pacific Rim today is collectively the United States' largest trading partner.... Some 40 percent of global bank reserves are now in seven leading East Asian economies, compared with only 17 percent in 1980.... Our reliance on these and other sources of foreign capital further underscores Asia's growing importance to the United States.
>
> —There is no more important bilateral relationship than the one we have with Japan. It is fundamental to both our Pacific security policy and our global security objectives. Our security alliance with Japan is the linchpin of United States security policy in Asia.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

> —The United States National Security Strategy published in July 1994 is based on enlarging the community of market democracies.... [I]ts central goals are: to enhance security by maintaining a strong defense capability and promoting cooperative security measures; *to open foreign markets and spur global economic growth* [italics added]; and to promote democracy abroad.

The DOD report suggests a strategy that is devoted to buying the short-term cooperation of a number of East Asian states. They, in turn, see their relationship with the United States as a convenience that allows them to continue building their regional capabilities in preparation for the day when the United States can no longer support—financially, politically, or both—its flawed regional vision. The suggestion of the DOD report that Asians respect the American military presence in East Asia runs counter to the skepticism expressed by the former prime minister of Singapore, Lee Kuan Yew, in his *Foreign Affairs* interview of March 1994: "Nobody believes that an American government that could not sustain its mission in Somalia because of an ambush and one television snippet of a dead American pulled through the streets of Mogadishu could contemplate a strike on North Korean nuclear facilities like the Israeli strike on Iraq."

UNHEALTHY DEPENDENCIES

THE UNITED STATES signed its first postwar security treaty with Japan in 1951. Japan had a devastated economy and was in the last stages of American military occupation, communists had swept to power two years earlier in China, the Korean War was in full swing, and the yen was 360 to the dollar. Today, Japan has the most modern industrial structure in the world, it has not run a trade deficit with the United States for almost three decades, the dollar has lost nearly 80 percent of its original postwar value against the yen, and Japan faces no known external military threat.

The Japanese establishment, not surprisingly, has welcomed the DOD report as a sign that the United States will continue to ignore the massive shift that has occurred in the balance of power—in Japan's favor. For Tokyo, the report means that the United States is unilaterally giving up its only real bit of leverage in dealing with its ruinous trade deficits. Yukio Okamoto, a former director of the Japanese Foreign Ministry's

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

North American bureau, avers that "after two years of an excessive emphasis on trade, U.S. policy toward Japan is finally returning to a sound one." That emphasis may be sound from a short-term Japanese point of view, but it is hardly a viable policy for the next 20 years. Given the current yen-dollar exchange rate, the 45,000 U.S. troops based in Japan cannot afford a bowl of noodles if they leave their bases. It does not take a Thucydides to see that such a relationship is unstable.

The Clinton administration should have reevaluated America's strategic interests in Japan in light of long-term changes in strategic and economic trends. It might then have concluded that a regional balance of power among China, Japan, and the Association of Southeast Asian Nations (ASEAN), which is maintained in part by the United States in return for greater participation in the Asian economy, was needed for the next century. Instead, as the United States attempts to reassure the region with its continuing defense commitment, the economic factors creating a more independent Asia are exposing the frailty of the U.S. position. How can the United States indefinitely prop up an old alliance with Japan without the shared Cold War values and commonly perceived threats that created the alliance in the first place?

The Department of Defense may still see Japan as the linchpin of its security policy in Asia, but mutual interests are no longer assured. U.S.-Japanese economic tensions will continue to heighten in the years ahead, and these will inevitably bring new pressures on the security relationship. As Japanese Foreign Minister Yohei Kono pointed out in January, Japan's national interest is now more important than its "mere identity" as a member of the West because "[t]here is a growing view that we have entered an era when nations pit their economic interests and those of their region in competition against one another."

For the time being, however, the U.S. military presence is a convenient asset. As far as Japan's Ministry of Finance is concerned, contributing $5 billion to the upkeep of U.S. troops in Japan is a budgetary windfall; it would be far more costly for Japan to finance its own defense. Locking the U.S.-Japan relationship in a Cold War time warp also postpones the day of reckoning when Japan's politicians will have to confront the problems inherent in Article Nine of

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

ROBERT WALLIS/SABA

Japan's U.S.-bestowed postwar constitution, which renounces war as a sovereign right of the nation. This time warp ensures that any leader in Japan who attempts to revise the constitution to allow Japan to engage in equitable risk-sharing will find it politically impossible to do so. Only an end to Japan's protectorate status will create the necessary domestic political conditions for Japan to assume a balanced security role in regional and global affairs.

The United States should recognize that its outdated security policy does not encourage a healthier liberal democracy in Japan but instead strengthens reactionary, narrow-minded political leadership. This type of leadership is by no means unique to Japan, but the collective amnesia of its political class on the subject of the Pacific War, which cuts across generational lines, should be as disturbing to the United States as it is to Japan's neighbors.

Japan's protectorate status is partially responsible for this amnesia. Unlike Germany, Japan's political leaders have never had to integrate their views into the confines of an alliance relationship based on sharing risks with their former enemies. While Germany entered

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

NATO in May 1955, the United States colluded with Japan's leaders to devote the country exclusively to economic growth even at the expense of developing a system of equal responsibilities in the U.S.-Japan security arrangement.

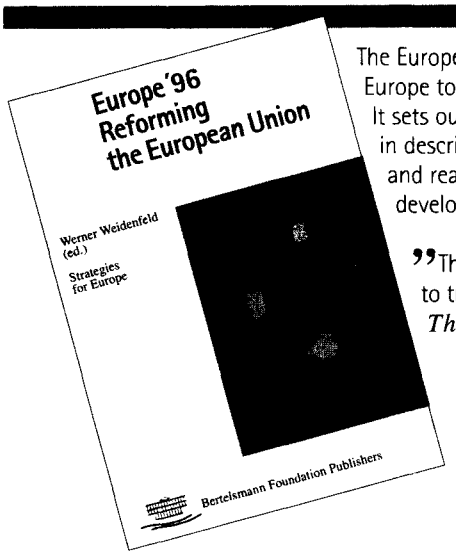
The legacy of this Cold War arrangement is seen in Japan's continuing debate over what it means to become an "ordinary country" *(futsu no kuni),* in the words of Ichiro Ozawa, the secretary-general of the main opposition party. To Ozawa, this means a country with a balanced portfolio of economic, technological, military, and other forms of power, used in concert with its allies and under the firm control of the nation's political leaders. Since the end of the 38 years of uninterrupted rule by the Liberal Democratic Party (LDP) in 1993, discussion of the need for Japan to become an "ordinary country" has been the most important political debate in the country. It reopened the hitherto taboo topics of sovereignty, citizenship, and national responsibility that were foreclosed by the Security Treaty riots of 1960, which forced President Eisenhower to cancel his proposed visit to Japan.

The U.S. commitment to maintaining troops and bases in Japan well into the 21st century short-circuits this renewed internal debate and instead telegraphs America's lack of confidence in the ability of Japan ever to become an ordinary country. But Japan's failure to do so could produce the very instability the Defense Department claims it wants to avoid. In the words of Masataka Kosaka, one of Japan's foremost foreign affairs specialists, under current conditions, "Japan can neither identify itself with Europe and the United States nor live in peace in Asia."

The DOD report's assumptions lend credence to the idea that it is only the U.S. military that keeps the Japanese genie in the bottle. Japan, the argument goes, must be contained by an unequal defense arrangement for its own good and for the good of the rest of Asia. Until 1945, Japan never acted militarily as a balanced and fair-minded regional power. It therefore must never again have a regular military because a Japanese military that operates internationally would be sure to run out of control.

It is true, of course, that while civilian control of the military in Japan is constitutionally guaranteed, it is not well established in law and has never been operationally tested. The inability of the Japanese prime minister to exercise emergency powers in crisis situations—

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED



The Europe'96 reform program highlights the main challenges facing Europe today and proposes specific measures for tackling them. It sets out to reconcile vision and realism in European politics – vision in describing the goals of a federal and democratic European Union and realism in formulating practical suggestions for the future development of the Union's structure.

"The report from the Structural Commission is likely to translate into policy sooner rather than later"
The Independent

"The central issues are treated in brilliant brevity"
Gabor Tegyey, Project Europe

"Directions for a review of the Maastricht EU Treaties"
Süddeutsche Zeitung

Werner Weidenfeld (ed.)
Europe'96
Reforming
the European Union
1994, 64 pages, brochure
free of charge, ISBN 3-89204-154-7

Bertelsmann Foundation Publishers
Carl-Bertelsmann-Str. 256 • D-33311 Gütersloh
Tel.: (++49 52 41) 817-0 • Fax: (++49 52 41) 81 66 77

Want to brush up on a foreign language?

With Audio-Forum's intermediate and advanced materials, it's easy to maintain and sharpen your foreign-language skills.

Besides intermediate and advanced audio-cassette courses—most developed for the U.S. State Department—we offer foreign-language mystery dramas, dialogs recorded in Paris, games, music, and many other helpful materials. And if you want to learn a new language, we have beginning courses for adults and for children.

We offer introductory and advanced materials in most of the world's languages: French, German, Spanish, Italian, Japanese, Mandarin, Greek, Russian, Arabic, Korean, and others.

This is our 23rd year as publishers of audio-cassette self-teaching language courses. We are known world-wide for our quality, service, and reliability. **Foreign-Language Feature Films** on video are a new addition to our catalog. Our 60-page *Whole World Language Catalog* offers courses in 91 languages. Call 1-800-243-1234 or write for your free copy.

AUDIO-FORUM
THE LANGUAGE SOURCE
Room E704,
96 Broad St., Guilford, CT 06437 (203) 453-9794

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Asia-Pacific Review

The new publication of the
INSTITUTE FOR INTERNATIONAL POLICY STUDIES

Get the advantage *of a new* vantage point

"*Asia-Pacific Review* brings to its readers some of the best analysts on Japan and its growing international role." — *Sebastian Mallaby, Tokyo Bureau Chief,* The Economist

Established in January 1994 to answer the need for firsthand policy analyses from an Asia-Pacific perspective, each biannual issue of *Asia-Pacific Review* provides 10~12 concise, insightful articles. In the Spring/Summer 1995 issue, former Prime Minister Yasuhiro Nakasone discusses bureaucrats in Japan, Professor Susumu Yamakage looks at the prospects for APEC, and Patrick M. Cronin reviews the future of the Japan-US alliance. Unique vantage points such as these make *Asia-Pacific Review* authoritative and indispensable.

☐ YES, please begin my subscription today—two yearly issues for US$35.00.

Name _____

Address _____

_____

☐ Please send pro forma invoice ☐ Cheque for US$35 enclosed

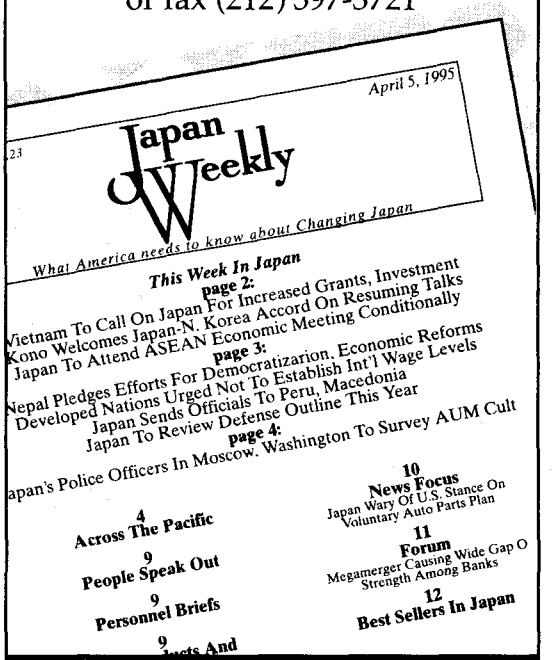
Please return to: *Asia-Pacific Review* Subscriptions
Maruzen Co., Ltd., Int'l Division Export Dept.
PO Box 5050, Tokyo International 100-31 JAPAN

For information: INSTITUTE FOR INTERNATIONAL POLICY STUDIES
Tel +81(3)3222-0711 • *Fax* +81(3)3222-0710

For a FREE TRIAL SUBSCRIPTION to:

Japan Weekly

...A *new* current affairs newsletter prepared by *Kyodo News International,* call us at **1-800-536-3510,** or fax (212) 397-3721


April 5, 1995
Japan Weekly
What America needs to know about Changing Japan
This Week In Japan
page 2:
Vietnam To Call On Japan For Increased Grants, Investment
Kono Welcomes Japan-N. Korea Accord On Resuming Talks
Japan To Attend ASEAN Economic Meeting Conditionally
page 3:
Nepal Pledges Efforts For Democratizarion, Economic Reforms
Developed Nations Urged Not To Establish Int'l Wage Levels
Japan Sends Officials To Peru, Macedonia
Japan To Review Defense Outline This Year
page 4:
apan's Police Officers In Moscow. Washington To Survey AUM Cult
4 Across The Pacific
9 People Speak Out
9 Personnel Briefs
10 News Focus
Japan Wary Of U.S. Stance On Voluntary Auto Parts Plan
11 Forum
Megamerger Causing Wide Gap O Strength Among Banks
12 Best Sellers In Japan

Kyodo News INTERNATIONAL

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

shown both during the Persian Gulf War and in the aftermath of this year's Kobe earthquake—suggests that Japan has yet to develop institutions strong enough to allow it to function as a fully balanced state.

THE CENTER CANNOT HOLD

THE RECENT TENSIONS with North Korea over its nuclear program highlighted the awkwardness of Japan's protectorate status. Japan's U.S.-imposed constitution allows it to defend itself only if attacked. According to current interpretations, Japan cannot come to the aid of an ally who comes under fire from a common enemy. The Pentagon should ponder the specter of Japanese warships standing idly by while the United States takes major risks to defend South Korea. Popular support in the United States for any defense of Japan would instantly vanish. But the Japanese rightly perceive that aiding South Korea militarily may also be impossible for them because of their legacy of colonialism there.

If Washington understood East Asia as well as it understands Europe, policies would have been adopted long ago that would have precluded today's problems. It would have encouraged a more balanced Japanese approach to foreign policy options in East Asia and ensured that Japan was thoroughly integrated into an international alliance system. Over time, this would have encouraged the development of a robust cadre of foreign affairs specialists among Japan's politicians. Instead, the Japanese parliament, the Diet, remains a largely venal and parochial debating club that only rarely takes an interest in influencing Japan's international policies.

As the fiftieth anniversary of Japan's World War II defeat draws near, this problem is becoming plain. Over 270 Diet members, some born well after the war, have formed a bloc that, among other things, advocates a revision of Japan's modern history. "We did not fight against Asian countries," asserted the group's leader, former Justice Minister Seisuke Okuno. "Instead, we fought against the United States and Britain. Who committed the more serious war crime? It was the United States." In a democracy where serious policymaking rarely takes place in parliament and international affairs remain almost exclusively in the hands of the bureaucracy and a small party elite, it is

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

not surprising that such views not only survive in Japan but can muster a majority across party lines in the Diet. U.S. policy has aided and abetted this situation by maintaining Japan's protectorate status.

Unsettling though it may be to some American policymakers, the position that Japan should remain a perpetual servant of U.S. power and naturally accept U.S. interests as preeminent is an idea whose time has passed, if it was ever plausible. In fact, during last year's short-lived Hata administration, Japan began to edge toward recognizing a right of collective self-defense. The Hata cabinet suggested that Article 51 of the U.N. Charter, Article 5 of the San Francisco Peace Treaty, and the preamble to the Japan-U.S. Security Treaty all implicitly gave Japan the right to enter collective defense arrangements. This debate was suspended when the conservative LDP entered into a coalition government with the Socialist Party and returned to power. As prime minister, this coalition put forward Tomiichi Murayama, a Socialist Party figure who, before coming to power, spent 30 years opposing the Japan-U.S. Security Treaty and the arrangements for the defense of South Korea. The DOD report views such developments in Japanese national politics as irrelevant and assumes they will remain so well into the next decade.

East Asian markets will not open wider to U.S. goods because of the Seventh Fleet.

If Japan is truly to remain the linchpin of U.S. strategy in Asia, any serious rethinking of U.S. security policy must center on rewriting or peacefully dismantling the Japan-U.S. Security Treaty. Many see China's continued expansion as East Asia's greatest security challenge. But a more serious threat to a peaceful Asia-Pacific region is a United States that continues to distrust Japan's ability to act as a true ally. The regional leadership potential of Japan, including the possibility that it will balance the interests of the United States and China in East Asia, should not be underestimated. And ASEAN's calls for Japanese leadership are no longer muted. Leaders in Singapore, Malaysia, the Philippines, and Thailand have all urged Japan to demonstrate greater regional political leadership. They are ready to put history behind them—even if South Korea, China, and a sizable portion of Japan's parliament are not—and encourage the develop-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

ment of this balancing role.

It is only a matter of time before Japan responds. In preparation, the United States should create a more equal political and security relationship with Japan in order to adjust smoothly to the coming changes. Moreover, the DOD report's unilateral and total commitment to Japan as America's linchpin in the Pacific undercuts American diplomatic efforts to build multilateral institutions such as the Asia-Pacific Economic Cooperation forum or support those being undertaken by ASEAN without American endorsement.

WHISTLING IN THE DARK

SEVERAL OTHER contradictions and dubious formulations in the DOD report delude the American public and the international community about the urgent need for new strategies. The DOD report implies that America's wars, deployments, and alliances during the Cold War were the "oxygen" that made the East Asian economic miracle possible. But East Asia's own invention of state-guided capitalism did more to overcome communist militancy and wars of national liberation in the region than any military role played by the United States. The United States tends to forget that, at best, it fought to a stalemate in the Korean War and lost the one in Vietnam, and that the closing—due to the eruption of Mount Pinatubo and the actions of the Philippine Senate—of its two largest overseas bases, Clark Air Base and Subic Bay, produced not even a shiver of instability. The most odious regime in postwar Asia, Pol Pot's Khmer Rouge in Cambodia, was disposed of not by Americans but by Vietnamese communists.

The really important role played by the United States in the enrichment of Asia was in keeping U.S. markets open to high-quality, low-priced manufactured exports from Asia. The United States did this not just to benefit its own consumers, as economic ideologues would have it, but also as part of a grand strategy to sign up Asian countries on the American side in the Cold War. It traded access to the American market for basing rights, votes in the United Nations, and other often minimal gestures in support of U.S. foreign policy. The United States cannot perpetuate this policy indefinitely. It needs to increase domestic savings and cut consumption. Moreover, no sin-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

gle distant foreign market can continue to absorb a majority of the exports from Japan, the newly industrialized countries (South Korea, Taiwan, Hong Kong, and Singapore), Southeast Asia, and now China. The United States must also give economic preference to its Mexican and Latin American neighbors, even if this comes at the expense of some Japanese manufacturers in Southeast Asia.

The DOD report offers a military substitute for the failure of the United States to produce an effective trade and investment strategy toward East Asia. The remaining communist countries of the region, particularly China and Vietnam, are not attracted by the DOD report's "market democracies" but by what Eisuke Sakakibara of Japan's Ministry of Finance calls the "noncapitalist market economies." Despite American whistling in the dark that foreigners' taste for American movies, rock music, blue jeans, and McDonald's hamburgers means that the United States is still their model, this intellectual battle is over. Some version of Asian capitalism lies in most nations' future. Even the Russians, having tried Harvard economist Jeffrey Sachs' brand of "pure" capitalism and found only chaos, now look to Asian models of "transitional authoritarianism."

The productive order that these countries crave cannot be supplied by an external military power, as envisioned in the DOD report, but must come from within a society. The distinctions between political, economic, social, and military spheres are a peculiarity of the Western social science mind that is neither shared in Asia nor sustained empirically. In his memoirs, Saburo Okita, Japan's late foreign minister and one of the architects of its postwar rebirth, wrote: "An army in uniform is not the only sort of army. Scientific technology and fighting spirit under a business suit will be our underground army." Until the Pentagon begins to understand this, its prescriptions for American national security in the Pacific are more likely to produce the opposite of what is desired. East Asian markets will not open wider to U.S. goods and services because of the presence of the Seventh Fleet. A threat to withdraw the fleet might provide some useful bargaining leverage, but the DOD report forecloses that option for the next 20 years.

The question is whether a U.S. commitment to a Cold War vision of East Asia until the year 2015 reflects a viable strategy or inertia and drift. The Pentagon's understandable desire to maintain old spend-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

ing levels and military commitments should not drive U.S. regional strategy. The current limits of America's "superpower" position regarding its European and Japanese allies were apparent to Richard Nixon and Henry Kissinger as far back as 1973. Today, however, neither the Democrats nor the Republicans are willing to offer new views on how U.S. strategic interests in East Asia should change to enhance regional security and mutual prosperity. The Clinton presidency remains woefully short of Asia hands thinking seriously about the future parameters of U.S. power in East Asia, and the Republican "Contract With America" studiously avoids mentioning foreign trade or investment. As high as the stakes currently are in East Asia, they are certain to be higher in the next decade. Adequate planning now, based on a forward-looking assessment of U.S. priorities and a realistic appraisal of the capabilities, needs, and long-term aspirations of U.S. allies in East Asia, will protect against scapegoating and destabilizing policy rifts later.

The Department of Defense has become a virtual pawn of the Japan lobby.

Perhaps the most demagogic claim made in the DOD report is that forward-deployed American troops are a force for democracy. "Having United States forces in Asia," the report argues, "also promotes democratic development in Asia, by providing a clear, readily observable example of the American military's apolitical role." This sounds like the old Christian missionary argument for the potential commercial value of missions in China. It was said then that the Chinese would watch how the missionaries lived and learn to want Western products. One wonders what the people of Kwangju, South Korea, learned about Americans from the 1980 massacre of civilians in their city by Republic of Korea troops, since until December 1, 1994, all South Korean troops were technically under the supreme command of an American officer. As author Frank Gibney has written, "The Kwangju bloodletting was the Korean equivalent of China's Tiananmen massacre—no less ruthless for having been perpetrated by an ally."

The DOD report takes credit for the growth of South Korea's democratic institutions under the cover of American-supplied stability. It would be more accurate to say that the presence of the American mil-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

itary in South Korea provided the cover for two military coups d'état and delayed democracy by at least a decade. This is not to say that the United States had no business being in Korea militarily, but it should have long ago revised its command-and-control structure and stopped behaving as if it were a colonial regime.

The real meaning and danger of the DOD report are that it is the Clinton administration's answer to the failure of its trade policy over the past two years. Even though it staffed its trade apparatus with lawyers and economists who knew nothing about East Asia, the administration still seems surprised that its efforts to open Japan's markets have turned out no differently from those of the previous three administrations. The Japanese have also used their formidable lobbying capabilities to savage the Clinton administration as protectionists and wreckers of the Japanese-American alliance. In this continuing effort, in which Japan argues that the United States must abandon its attempts to open Japanese markets to American goods lest Japan "retaliate" against U.S. bases by reducing their financial assistance, the Department of Defense has become a virtual pawn of the Japan lobby. The real leverage Japan has over the Pentagon is not U.S. bases there (although, in the words of the DOD report, "Japan supplies by far the most generous host nation support of any of our allies") but the military's dependence on important Japanese technologies—flat-panel computer displays, for example.

Rather than representing a new strategy, the DOD report is actually a sign of U.S. policy's bankruptcy in the new global economic center of gravity, East Asia. That is why it deserves to be widely discussed. Americans must begin to recognize that Cold War–style military power today is relevant to only a small and narrowing spectrum of policy problems. The real danger for the United States in the post–Cold War world is armed impotence.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Reviews

UPI/BETTMAN NEWSPHOTOS

Marshal Tito in August 1944, a few months before he bested a rival to be appointed the head of the new Yugoslav government.

For Tito, Yugoslavia's unity was always subordinate to his personal power.

Tito's Last Secret *Aleksa Djilas* 116

Trotskyism to Anachronism *John B. Judis* 123
Recent Books on International Relations *130*
Underrating 'Preventive Diplomacy' *Michael S. Lund* 160
Letters to the Editor 164

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Review Essay

Tito's Last Secret

How Did He Keep the Yugoslavs Together?

Aleksa Djilas

Tito and the Rise and Fall of Yugoslavia. BY RICHARD WEST. New York: Carroll & Graf, 1995, 436 pp. $27.50.

When Marshal Tito, president of Yugoslavia, died on May 4, 1980, the representatives of 122 states, including an impressive array of world leaders, attended his funeral. He was almost universally hailed as the last great World War II leader, the first communist to successfully challenge Stalin, and the founder of "national communism." Above all else, Tito was praised as the creator of modern Yugoslavia, the leader whose wisdom and statesmanship had united Yugoslavia's historically antagonistic national groups in a stable federation.

In his excellent book, *Tito and the Rise and Fall of Yugoslavia*, Richard West provides us with a biography, travelogue, and popular history of Yugoslavia and an analysis of the personalities and events that brought about the country's disintegration and civil war. West loves Yugoslavia and has a native's feel for local color and anecdotes. He writes so admirably that one enjoys his book even when its conclusions are questionable. This is certainly one of the most readable books ever written about Yugoslavia.

Tito as unifier of Yugoslavia is one of the author's main themes. The Communist Party came to power in Yugoslavia at the end of World War II after its Partisan army fought not only German, Italian, and other occupiers but also fellow Yugoslavs in rival, often quisling, military units. The Partisans were a multinational group (although Serbs predominated in the first half of the war), as was the Communist Party. They advocated national equality and a federal Yugoslavia in their propaganda. This helped them win the civil war since their opponents were mostly nationalists who had followings

ALEKSA DJILAS is the author of *The Contested Country: Yugoslav Unity and Communist Revolution, 1919-1953*. From 1987 to 1994 he was a Fellow at the Russian Research Center, Harvard University.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

only inside their own national groups and whose extremism alienated large segments of the population.

After the war and throughout the Cold War, a triumphant Communist Party, with Tito at its helm, claimed that it had once and for all solved the nationalities problem. Because Yugoslavia collapsed after Tito's death, many—including West—believe that it was his genius that kept it together. Nothing could be further from the truth.

RISE OF A COMMUNIST

Josip Broz "Tito" (the last name being an alias he adopted in the 1930s for illegal party work) was born in 1892 in Croatia, then a part of Austria-Hungary.[1] His father was Croatian and his mother Slovene, and they were among the better-off peasants in their village. At the age of 15, Tito left home and, frequently switching jobs, wandered from one industrial city of central Europe to another.

As a young locksmith's assistant, Tito had some sympathy for the social democratic movement, but was not politically active. Nor did he get involved with the young revolutionary Croats and Serbs of Austria-Hungary who wanted the dissolution of the Hapsburg monarchy and the unification of its South Slav lands with Serbia and Montenegro to form a new state, Yugoslavia (meaning "the land of South Slavs"). When Austria-Hungary attacked Serbia in 1914, Tito was sent as a sergeant to the Serbian front. Today's Serbian nationalists interpret this as a sign of his early anti-Serbian attitude, but many other Hapsburg Croats and Serbs fought loyally for the monarchy on all its World War I fronts.

Transferred to the Russian front, Tito was wounded and captured. After recovering, he escaped in 1917 to Petrograd (the Russified name for St. Petersburg), but did not participate in the October Revolution. He thought of emigrating to the United States, but the vicissitudes of fate brought him to Omsk, Siberia, where the Bolsheviks were in power. He became a member of the party in 1919.

When Tito returned home in 1920, Austria-Hungary was no more, and Croatia had become a part of the newly founded Kingdom of the Serbs, Croats, and Slovenes (the name "Yugoslavia" was officially adopted in 1929). However, the state ideology of Yugoslav unity was soon challenged by national conflicts, in particular between the Serbs, who favored centralism and predominated in the government and the military, and Croats, who favored federalism or the creation of a separate Croatian state. The Communist Party of Yugoslavia, created in 1919, initially attracted a considerable following, but was more revolutionary in rhetoric than in action. Even so, it was outlawed in 1921.

The party had not prepared its cadres for an underground struggle, and most of its activities ceased. Nor was Tito a fervent militant at the time. But he eventu-

[1] More than 900 books have been published in Yugoslavia on Tito and his life, and there are over 350 books and major articles in English. The overwhelming majority are uncritical and propagandistic. A reader tempted to study Tito's life in more detail could begin with: Stephen Clissold, *Whirlwind: An Account of Marshal Tito's Rise to Power*, London: Cresset Press, 1949; Milovan Djilas, *Tito: The Story from Inside*, London: Weidenfeld & Nicolson, 1981; Stevan K. Pavlowitch, *Tito: Yugoslavia's Great Dictator—A Reassessment*, London: C. Hurst & Company, 1992.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

ally became one and in 1927 was appointed secretary of the important Zagreb party committee. As a communist leader Tito blossomed, showing initiative and resourcefulness. He opposed factional struggles within the party and was proud and defiant during his police interrogations, trial, and more than five years of imprisonment for party activity.

CONVERSION TO FEDERALISM

In the 1920s and early 1930s, the main quarrel inside the Communist Party of Yugoslavia was between moderates (who were mostly in power) and radicals (mostly in opposition). The former were usually middle-class, middle-aged intellectuals who preferred legal action and engaged in endless intellectually stimulating but politically unproductive polemics. They kept the party, in the name of "pure class struggle," away from nationalistic quarrels. The latter were mostly younger intellectuals and workers who favored underground work, though usually not terrorism, and the energetic recruitment of the young. Following Lenin, who during the Russian Revolution sought the support of non-Russian nations dissatisfied with tsarism and Russification, they wanted the party to side with non-Serbian nations against "Serbian hegemony." Neither the moderates nor the radicals, however, were nationalists.

The government's persecution of communists indirectly favored the radicals; the Communist Party had no choice but to concentrate on illegal work. The "dictatorship of King Alexander" had the same effect. In 1929 the king suspended parliamentary rule, established his personal regime, and increased Serbian centralism. National dissatisfaction, especially among the Croats, soared, and it became obvious that the Communist Party could not remain detached.

The Comintern—the organization founded in 1919 to give Russian communists control of communist movements throughout the world—was almost from its start hostile to Yugoslavia, since the country was allied with anti-Bolshevik "imperialists" Britain and France. Oblivious to the many ethnic, linguistic, and cultural similarities among the South Slavs and their powerful nineteenth-century aspirations toward a common state, the international communist leadership saw Yugoslavia as a kind of Serbian mini-empire based on military conquest. The Comintern, therefore, demanded the immediate dissolution of the "prison of the peoples" and showed more sympathy for Yugoslav radicals than for moderates.

The demand to split Yugoslavia into smaller states went further than even most radicals wanted, but, obedient to the Comintern, Yugoslav communists included it in their program. In the mid-1930s, however, the Comintern began to perceive Yugoslavia differently, as a barrier to fascism and Nazism (both Mussolini and Hitler wanted to destroy the country). Meanwhile, the Communist Party of Yugoslavia felt increasingly uncomfortable advocating separatism, since the separatist parties were mostly right-wing, clerical, pro-fascist, and aggressively anticommunist.

At that time, a new generation of communist activists, young but with much experience in illegal work and in enduring police interrogation and imprisonment, had come into party leadership positions vacated by Alexander's persecution and Stalin's purges. They

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

wholeheartedly embraced the Comintern's new policy, which tried to unite all "progressive forces" in an antifascist Popular Front, and in that spirit they fashioned a new policy toward the national question in Yugoslavia. "Serbian hegemony" was still the enemy and national equality the main goal, but separatist movements were also condemned for their right-wing and pro-fascist affinities. The preservation of a reorganized, communist Yugoslavia was advocated. Within the zealously "internationalist" Communist Party of Yugoslavia, loyal to the Soviet Union and worshipful of Stalin, Yugoslav patriotism began to grow.

UPI/BETTMANN

The Comintern appointed Tito secretary-general of the Communist Party of Yugoslavia, probably in 1937.[2] From 1944-45, when the communists came to power in Yugoslavia, until his death, Tito was for much of the time simultaneously head of the party, marshal of Yugoslavia, head of government, commander in chief, and president of the country. He was a seasoned politician who had survived the purges (and according to some accounts participated in them), and much older than most of his closest collaborators, who called him "Stari"—the old man. While definitely not a Croatian nationalist, as many Serbs now portray him, he did not share the young communists' strong feeling of being Yugoslav. For Tito, Yugoslavia remained primarily a political idea, a tactic for the revolutionary conquest of power. During World War II, and especially during the conflict with Stalin that broke out in 1948, Tito's patriotism and concern for Yugoslavia's unity would increase, but would always remain subordinate to political expediency and personal power.

TITO'S REAL SECRET

West portrays Tito as a moderate and mild dictator. In comparison to some twentieth-century dictators, this is undoubtedly true. West also sees Tito as a reluctant autocrat who opposed democracy and attempts at liberalization primarily because they would unleash nationalist passions and endanger the unity of the country. But if the conflict between Croats and Serbs had somehow miraculously disappeared, there is no evidence that Tito—who, as West himself notices, "was always inclined to resist

[2] Pero Simić, *Kad, kako i zašto je Tito postavljen za sekretara CK KPJ*, Belgrad: Akvarijus, 1989.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

reform or any weakening of the central power"—would have allowed, let alone encouraged, democratization. Tito was a dogmatic autocrat who never considered abandoning either the basic tenets of Marxist-Leninist ideology or the one-party system of government based on it.

On the larger issue of Yugoslav unity, West thinks that Tito was indispensable: "Supporters of Tito felt that [Yugoslavia] needed many more years of his strong and paternal rule to heal the wounds of the war. Such people valued the concept of Yugoslavia more than abstract -isms and -ocracies." But Tito ruled for over three and a half decades. No one can say that he did not have enough time to strengthen Yugoslavia's unity.

Yet the country ultimately disintegrated in a bloody civil war. And this breakup was not as much of a surprise as is often suggested. During the 1980s, Western statesmen and diplomats expressed continuing faith in Yugoslavia's future and unity. They were not naive. They simply thought it prudent to hide their fears, since an open discussion of Yugoslavia's slow disintegration might have sped it up. By then, many in the West began noticing the powerful separatist tendencies among the Croats and the Albanian minority, as well as the weakness of the central government in Belgrade, where the state and the party were headed by collective presidencies. The presidencies, moreover, were mere collections of the delegates of the six republics (Bosnia-Herzegovina, Croatia, Macedonia, Montenegro, Serbia, and Slovenia) and two autonomous provinces (Vojvodina and Kosovo, both inside Serbia). Indeed, it was no secret that the erosion of federal authority was such that politicians from the republics and provinces avoided long stretches in office in Belgrade, since it removed them from true political power.

Far from being the great unifier, Tito pursued many policies that eroded unity. In a simplistic, Marxist-Leninist manner, Tito saw nationalism as "bourgeois ideology" and national conflicts as caused by "capitalism." So after the war, with the "bourgeoisie" defeated, he did little to combat nationalism and forge unity. While a common Yugoslav school program was created, cultural exchanges among Yugoslavia's six republics were not intense and with time became rare. No university for all nationalities was created, nor was there a policy of encouraging students to study outside their republics. It was rare for a Croatian professor to teach in Belgrade or a Serbian one in Zagreb. When the media did advocate all-Yugoslav ideas, it was an exception to the rule. This cultural and intellectual autarky of republics helped preserve the traditional nationalisms of various groups.

Tito was among the more conservative Yugoslav communists when it came to tolerance of free expression of ideas and artistic creativity. Yet he was interested in attracting famous intellectuals and artists who would support the communist regime and exalt him personally. If they obliged, and in most cases they did, their prewar views and activities, which were often nationalistic, were erased from official memory, and thereafter no one was permitted to criticize them publicly. They became esteemed members of the establishment and adopted a veneer of Marxism-Leninism, but beneath it they continued to propagate nationalism. This was particularly true of historians, lin-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

guists, writers, and artists, whose work teemed with national pride, self-pity, and negative stereotypes. And new generations of intellectuals followed their teachers and elders.

As time went on, the official concept of Yugoslav unity became more and more emptied of the ethnic, linguistic, and historical traditions common to all Yugoslavia's national groups. By the late 1960s, it was almost completely vacuous. Titoist ideology was dispensed as a substitute, and schoolchildren, students, and soldiers had to learn about workers' self-management and Yugoslavia's foreign policy of nonalignment as values that held the country together. Tito's personality cult was a corollary.

Reforms in 1965 dealt centralized planning a decisive blow and stimulated economic development. But because they began to threaten the party's control over the economy they were drastically slowed down, mostly on Tito's initiative. So instead of a modern, integrated Yugoslav market economy, with the movement of capital, goods, and workers from one republic to another, regional interests increasingly asserted themselves. Republics and autonomous provinces began developing their own autarkic economies, duplicating each other's industrial enterprises, and inefficiently employing large foreign credits and loans. Since Tito's main concern was always to prevent any kind of all-Yugoslav opposition to his rule—and modern Yugoslav management and work forces might have become that—he welcomed the disastrous fragmentation.

In the early 1970s, Tito removed both the Croatian party leadership, which was nationalist but also liberal-reformist, and the Serbian party leadership, which was antinationalist and liberal-reformist. He had difficulty getting a majority of Serbian communists to support him and, true to form, responded in dictatorial fashion: "I wish to say here that when a party's line, results, and weaknesses are being discussed, then the number of speakers for or against a certain view is not the decisive factor in revolutionary choice and assessment of which path to take and what is to be done."[3]

After the purges, Tito advocated reintroduction of party centralism and reinvoked Lenin. Yugoslavia's economic, social, and political life was not sufficiently advanced to resist the dictator, and reforms were discontinued. Still, the society was too Westernized, the communist party too tired and ideologically uncertain, and the ordinary people too sophisticated for the country to be pushed back into the party centralism of the immediate post–World War II years, as some inside the party desired and many outside it feared.

Tito's antidemocratic and anti-modernizing measures engendered further fragmentation. The adoption of the 1974 constitution—perhaps the world's longest, and definitely the most complex, cumbersome, and difficult to read—almost turned Yugoslavia into a confederation. From that time until the disintegration of Yugoslavia in 1990, the eight locally based communist oligarchies resisted any form of reintegration. This anti-Yugoslavism (including firm opposi-

[3] This was said on October 16, 1972. Quoted in Dennison Rusinow, *The Yugoslav Experiment, 1948-1974*, London: C. Hurst & Company, 1977.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

tion to anyone declaring himself to be Yugoslav, rather than Croat, Serb, etc.) became a central tenet of their ideology.

After the purges of the early 1970s, Tito surpassed himself in "negative selection."[4] Docility and sycophancy were almost the only criteria he used for filling state and party leadership positions. In Serbia, for example, he stocked the party leadership with such weak, colorless, and insignificant individuals that it is not surprising Slobodan Milošević met so little opposition to his rise to power in the second half of the 1980s.

Tito's Yugoslavia was undoubtedly not a totalitarian state of mass terror, but merely a moderately authoritarian, semi-efficient, corrupt, and somewhat farcical state, similar to many others in the world. The main guarantors of Yugoslavia's unity were the communist police and army. No force in the country could challenge them, and Tito always had complete control of both. So he did not need great political skills to neutralize any opposition, including nationalists and separatists. After all, the Soviet Union and Czechoslovakia, the other two multinational countries in Eastern Europe, also were never threatened with disintegration so long as communists and their repressive police and army ruled them.

To resolve its national conflicts and overcome its sorrowful history, Yugoslavia would have had to be exceptional. It needed a dynamic economy and modern political institutions. Tito's political "genius" consisted of hindering and eliminating creative and reformist leaders, either within the communist party or outside it. What the West called "Titoism" turned out to be nothing more than Tito's skill in muddling through and avoiding the moment of truth. His talent was for nonsolutions that partly worked, provided he was at the center of the polycentric Yugoslav federation and the West provided huge credits. Tito, therefore, left nothing enduring. Neither workers' self-management, nor a foreign policy of nonalignment, nor Yugoslavia itself survived.

On May 4, 1995, the 15th anniversary of Tito's death, there were no official commemorations in any part of the former Yugoslavia. The media made few comments, almost all of which were negative and sarcastic. Up to 1990, around 14 million people had visited Tito's mausoleum. But for the anniversary only family members, representatives of the small and politically marginal League of Communists, and a few others came to his grave, which is no longer protected by the presidential guard of honor. The myth of Tito had vanished.

Alan Bullock ended his *Hitler: A Study in Tyranny* with the conclusion that Hitler had completely succeeded in his deepest purpose, which was to destroy "the liberal bourgeois order" and "the old Europe." He wrote, "Si monumentum requiris, circumspice," which translates as, "If you seek his monument, look around." Tito was no Hitler, nor was it ever his goal to destroy Yugoslavia. But since his dictatorial misrule enormously contributed to Yugoslavia's bloody disintegration, its ruins are a monument he deserves.

[4] Aleksa Djilas, "Tito and the Independence of Yugoslavia," *Review of the Study Centre for Yugoslav Affairs*, vol. 2, no. 4 (1980), pp. 399-400.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Review Essay

Trotskyism to Anachronism

The Neoconservative Revolution

John B. Judis

The Rise of Neoconservatism: Intellectuals and Foreign Affairs, 1945-1994. BY JOHN EHRMAN. New Haven: Yale University Press, 1995, 256 pp. $27.50.

For 14 years, from the 1973 Jackson-Vanik amendment until the 1987 Intermediate-range Nuclear Forces Treaty, a group of intellectuals known as neoconservatives shaped, and sometimes dominated, American foreign policy. They wrote for *Commentary, The Wall Street Journal,* and later *The National Interest.* They acted through organizations like the Committee on the Present Danger and the Committee for the Free World. They held important positions in the AFL-CIO leadership and in the office of Senator Henry M. Jackson, then the most powerful Democrat on the Senate Armed Services Committee. And during Ronald Reagan's first term, they occupied influential posts in the State and Defense Departments.

George Washington University historian John Ehrman has recounted how these intellectuals' views on foreign policy developed and, once they were ascendant, changed. His book is well written, and, while some of his choices of people are eccentric, many of his comments about particular neoconservatives are insightful. Ehrman's overall history, however, is skewed.

Ehrman describes neoconservatism as the fourth phase in the development of liberal foreign policy. The first was Cold War liberalism, which he identifies with Arthur M. Schlesinger, Jr.'s *The Vital Center,* Reinhold Niebuhr's essays, and the Truman administration's hawkish National Security Council report, NSC-68, drafted in 1950 under the supervision of Paul Nitze. The second was the left-wing revisionism of the 1960s, which he identifies chiefly with historian William Appleman Williams and disciples like Richard Barnet. The third was the neoliberal synthesis by political scientists

JOHN B. JUDIS is Senior Editor at *The New Republic* and author of *Grand Illusion: Critics and Champions of the American Century.*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Stanley Hoffmann and Zbigniew Brzezinski, which stressed world order and interdependence over containment and polarization. Neoconservatism arose as a reaction to both left-wing revisionism and neoliberalism and as a reaffirmation of Cold War liberalism. The neoconservatives, writes Ehrman, stood for "continued adherence to the vital center idea of an activist anticommunist foreign policy." They were Cold War liberals who searched for a Truman in the 1970s and found Reagan.

Ehrman's history recalls that of *Commentary* editor Norman Podhoretz in his 1980 book, *The Present Danger.* But Podhoretz and other neoconservatives who took this view had an ulterior motive. Just as conservative economists of the time were trying to portray the Kemp-Roth tax cuts as a reprise of the Kennedy administration's tax cuts, Podhoretz and the neoconservatives were trying to attract discontented Democrats to the Republican side by portraying their own doctrine as the true heir of Truman liberalism. Ehrman takes these arguments at face value. This version of neoconservative history mistakes a part, and a small part at that, for a more complex whole.

Some neoconservatives, like former Hubert Humphrey speechwriter Ben Wattenberg, could indeed be called unreconstructed Cold War liberals. But most followed different trajectories. The dominant strain of neoconservatism in the 1970s was a mixture of the geopolitical militarism of Nitze's NSC-68 and a kind of inverted Trotskyism or socialist internationalism. It owed little to Schlesinger's *Vital Center* or to memories of the Truman doctrine. A less dominant strain could be traced back to Niebuhr's realism, but it also bore little resemblance to Schlesinger's liberalism. It was centrist only in the sense that the center of American politics had shifted markedly to the right.

HEATING THE COLD WAR

One must begin by pulling apart the different strands of Cold War liberalism that Ehrman weaves into one. Niebuhr, Schlesinger, and Nitze were all anticommunists and Truman supporters in 1948, but they had very different views of the Cold War. Niebuhr warned against the "soft utopianism" of liberals like Schlesinger who believed that through a long-term struggle of ideas, communism would crumble, and a kind of democratic world government would emerge. Niebuhr was wary of foreign policy becoming a quasi-religious crusade—whether for freedom or communism. He was a balance-of-power, national-interest realist in the same tradition as Walter Lippmann, Hans Morgenthau, and George F. Kennan. Although Schlesinger and Nitze both embraced the struggle with communism, they interpreted it quite differently. In *The Vital Center,* Schlesinger, with a view toward the independent Yugoslavian communist leader Marshal Tito, portrayed world communism as beginning to fragment, even hinting at a future Sino-Soviet split; in NSC-68, Nitze portrays communism as a Soviet-led monolith. Schlesinger was optimistic about American prospects of eventually toppling communism without another world war; Nitze described the United States as being in "mortal danger" and "the deepest peril" from a Soviet Union that was on the verge (even in 1950) of becoming militarily superior. Schlesinger saw the United States engaged in a worldwide

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

political struggle against communism; Nitze saw the Cold War as a real war. He argued that if the United States permitted communist expansion anywhere else, it "would raise the possibility that no coalition adequate to confront the Kremlin could be assembled." Schlesinger's logic led to the Alliance for Progress; Nitze's led to American intervention in Vietnam and to periodic hysteria about missile gaps and windows of vulnerability.

Nitze's vision in NSC-68 was also fundamentally different from Niebuhr's realism. NSC-68 did not envisage spheres of influence or a balance of power. It committed the United States to a crusade against communism everywhere. Where Niebuhr's realism led to his own opposition to the Vietnam War and informed the attempt by Richard Nixon and Henry Kissinger to achieve détente with the Soviet Union, Nitze's outlook in NSC-68 underlay neoconservative opposition to détente. In the 1970s, Nitze himself was an important neoconservative who, along with legal scholar Eugene V. Rostow, founded the Committee on the Present Danger. Like other neoconservatives, he was a harsh critic of Jimmy Carter and supported Reagan in 1980, later joining his administration. It was his rather than Schlesinger's or Niebuhr's outlook that became the dominant strain in neoconservatism. It could be seen in the rejection of détente and the second Strategic Arms Limitation Treaty (SALT II), the conception of the Cold War as a real war, the claim that the United States was on the verge of being or had already been bypassed by the Soviet Union in military might, which would lead to what the neoconservatives called the "Finlandization" of Western Europe.

The other important influence on neoconservatives was the legacy of Trotksyism—a point that other historians and journalists have made about neoconservatism but that eludes Ehrman. Many of the founders of neoconservatism, including *The Public Interest* founder Irving Kristol and coeditor Nathan Glazer, Sidney Hook, and Albert Wohlstetter, were either members of or close to the Trotskyist left in the late 1930s and early 1940s. Younger neoconservatives, including Penn Kemble, Joshua Muravchik, and Carl Gershman, came through the Socialist Party at a time when former Trotskyist Max Schachtman was still a commanding figure.

What both the older and younger neoconservatives absorbed from their socialist past was an idealistic concept of internationalism. Trotskyists believed that Stalin, in trying to build socialism in one country rather than through world revolution, had created a degenerate workers' state instead of a genuine dictatorship of the proletariat. In the framework of international communism, the Trotskyists were rabid internationalists rather than realists and nationalists. In 1939, as a result of the Nazi-Soviet pact, the Trotskyist movement split, with one faction under James Burnham and Max Schachtman declaring itself opposed equally to German Nazism and Soviet communism. Under the influence of an Italian Trotskyist, Bruno Rizzi, Burnham and Schachtman envisaged the Nazi and Soviet bureaucrats and American managers as part of a new class. While Burnham broke with the left and became an editor at *National Review*, Schachtman remained.

The neoconservatives who went through the Trotskyist and socialist

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

movements came to see foreign policy as a crusade, the goal of which was first global socialism, then social democracy, and finally democratic capitalism. They never saw foreign policy in terms of national interest or balance of power. Neoconservatism was a kind of inverted Trotskyism, which sought to "export democracy," in Muravchik's words, in the same way that Trotsky originally envisaged exporting socialism. It saw its adversaries on the left as members or representatives of a public sector–based new class.

The neoconservatives also got their conception of intellectual and political work from their socialist past. They did not draw the kind of rigid distinction between theory and practice that many academics and politicians do. Instead they saw theory as a form of political combat and politics as an endeavor that should be informed by theory. They saw themselves as a cadre in a cause rather than as strictly independent intellectuals. And they were willing to use theory as a partisan weapon.

Together, the legacy of NSC-68 and Trotskyism contributed to a kind of apocalyptic thinking. The constant reiteration and exaggeration of the Soviet threat was meant to dramatize and win converts, but it also reflected the doomsday revolutionary mentality that characterized the old left. Even the sober historian Walter Laqueur predicted in 1974 the imminence of a "major international upheaval such as the world has not experienced since World War II." In 1979 Eugene Rostow (who was named after socialist Eugene Debs) predicted that if SALT II were ratified, "We will be taking not a step toward peace but a leap toward the day when a president of the United States will have to choose between the surrender of vital interests and nuclear holocaust."

THE KILLING OF DÉTENTE

What is the contribution of neoconservatism to American foreign policy? In the early 1970s, it was clearly a corrective to the illusions about the Soviet Union and Third World revolution that the new left had promulgated and that some liberals had accepted. (As a former member of Students for a Democratic Society, I can personally attest to this point.) But neoconservative foreign policy rested on illusions of its own—about the imminent Soviet threat and the window of vulnerability that would open if the United States did not rapidly accelerate its strategic weapons development. Neoconservatives may also have played a role in postponing rather than accelerating the end of the Cold War, which is not to be confused with the end of the Soviet Union itself.

In describing the neoconservatives of the 1970s, Ehrman focuses on their opposition to Senator George McGovern and Carter but largely ignores their opposition to Kissinger, which was just as important to their development as a political faction and their impact on American foreign policy. Neoconservatives scored their first important triumph challenging Nixon and Kissinger's realism. The Nixon-Kissinger strategy was aimed at drawing the Soviet Union into a new "structure of peace" through the balance of power with China and exchanging trade for diplomatic and military cooperation. In 1973 Jackson and the neoconservatives who worked with him, including Wohlstetter protégé Richard

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Perle, began a campaign to link trade concessions to the Soviet Union to explicit Soviet concessions on Jewish emigration. Jackson, Perle, and other neoconservatives were concerned about Jewish emigration, but they were equally, if not more, determined to derail détente, which they thought was based on a false picture of the world and the Soviet Union. They rejected Kissinger's realism in the same spirit that Trotskyists had earlier rejected Stalin's nationalism. In response, the Soviets offered private concessions, but Jackson and the neoconservatives insisted on passing Jackson-Vanik. The Soviets then balked at complying with its terms, and détente, from that moment, was dead. The United States could seek agreements with the Soviet Union based on mutual interest, but it could not pursue a general strategy aimed at ending the Cold War.

In retrospect, of course, neoconservatives could argue that the Soviet Union would have simply used détente as a cover for its imperial aims. And the Watergate scandal may have made it impossible for Nixon, Kissinger, and Gerald Ford to carry out their end of a détente strategy. But—Watergate aside—I would argue that by killing détente, the neoconservatives encouraged the Soviet Union to undertake the military buildup and expansion of its influence overseas that the neoconservatives later used as proof of their theories. Neoconservatism was a self-fulfilling prophecy. It helped precipitate the crisis in U.S.-Soviet relations that it then claimed to uncover and respond to.

During the Carter administration, neoconservatives were on firm ground in warning of the Soviet military buildup and Soviet expansion into Africa and the Mideast, but as heirs of Trotsky and Nitze's NSC-68, they were prone to exaggerating the dangers. They saw the Soviet buildup not as an expression of the Soviet military's insatiable appetite for state funds, but as the quest for a first-strike superiority over the United States. They downplayed the importance of American submarine superiority and overplayed the importance of Soviet heavy land missiles. And they ignored the Soviet economy, even after one of their own, Senator Daniel Patrick Moynihan, had begun warning of its deterioration. In making their case for a Soviet behemoth, they did not simply undercut the Carter administration's inept foreign policy. They laid the basis for the massive and at least partly unnecessary American arms buildup, which may have accelerated the decline of the Soviet Union but also contributed to the decline of the American economy—leading, among other things, to the crippling deficits of the 1980s. And they contributed to a dangerous war psychology in the early 1980s, which could have led to disaster but was finally put to rest by Reagan's conciliatory 1985 summit with Mikhail Gorbachev at Geneva. All in all, the neoconservatives had a decidedly mixed effect on U.S. foreign policy.

THE FALL OF NEOCONSERVATISM

After Gorbachev's accession and the initiation of serious negotiations between the United States and the Soviet Union, the neoconservatives entered, Ehrman notes, "a period of increased confusion." These events undermined a political worldview that assumed a "stable malevolent Soviet Union that was immune

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

from drastic change." Ehrman describes the result as a shift away from *Commentary* toward Owen Harries' *The National Interest* and from the older generation of neoconservatives to a younger one led by Charles Krauthammer, which "will be an important part of the conservative movement."

This is a plausible way to understand the last decade of neoconservatism, but not the most revealing. I would draw a distinction between the dominant idealistic strain of neoconservatism, expressed by Podhoretz and Rostow in the 1970s, and a less visible realist strain that appeared, but did not necessarily predominate, in essays by Kristol and Jeane Kirkpatrick. In "Dictatorship and Double Standards," which appeared in *Commentary* in January 1979, Kirkpatrick is remembered for arguing that capitalist autocracies were more likely to evolve into democracies than were communist dictatorships. But in that essay, she also made the Niebuhrian point that American foreign policy should not be based on the difficult promise of an imminent democratic transformation—whether in Nicaragua or Chile. This latter point was ignored in the formulation of policy and in public debate. But by the mid-1980s, the latent realism that it represented asserted itself in the thinking of Kristol, Kirkpatrick, and several other neoconservatives, allowing them to appreciate that the Cold War was ending and that a new foreign policy was necessary. (Ehrman's confusion on this point is clear in his emphasis on *National Interest* co-editor Robert Tucker, who is an important foreign policy thinker but a realist who, except for one notable cover story in *Commentary*, was never important to the rise of the neoconservative movement.)

Did Kristol and Harries create a new neoconservatism? I don't think so. It is more accurate to say that many neoconservatives, among others Kirkpatrick, Chalmers Johnson, and Edward N. Luttwak, have become realists. They have allied themselves with other refugees from liberalism and conservatism who think that post–Cold War American foreign policy has to be grounded in the venerable concepts of national interest, balance of power, and economic as well as military advantage. They no longer define their foreign policy primarily in opposition to a liberal or left-wing alternative, but to an idealism that has no particular political label. Some younger neoconservatives like Krauthammer initially seemed engaged in updating neoconservatism—replacing the Soviet threat with that of Iraq-style "aggressive nationalisms"—but they also seem to have gravitated toward a new realism. Scattered individuals still see themselves redefining neoconservatism for the post–Cold War period. Joshua Muravchik and Ben Wattenberg have argued that even with the Cold War over, the United States should continue a crusade for global democracy—what Wattenberg calls a new "manifest destiny." But they are largely irrelevant to the policy debate. As the American public's reaction to Bosnia demonstrated, Americans have little taste for intervening overseas when they do not see a direct threat to their national interest. Some neoconservatives have also continued to press for other parts of the old agenda. Frank Gaffney, Jr., a former Defense Department aide to Perle, has founded a miniature think tank, the Center for Security

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Policy, where, with funding from defense contractors, he has argued strenuously for greater defense spending and a hard line against the former Soviet Union. Gaffney actually got House Republicans to include increased funding for the strategic defense initiative in the "Contract With America," but they killed it once they had to weigh its importance against the threat of growing deficits.

None of these neoconservatives, whether or not they still identify themselves as such, continue to operate as a cadre. Indeed, they frequently disagree—about Bosnia, Haiti, and even whom to support for president. Both the Committee on the Present Danger and the Committee for the Free World have disbanded. If neoconservatism exists in the 1990s, it is much the way that the new left survived into the 1980s—as cultural nostalgia rather than distinct politics. Muravchik, Wattenberg, and Gaffney are political anachronisms of the 1990s in the same way that Noam Chomsky and Richard Barnet became anachronisms a decade before.

John Ehrman wants to maintain that neoconservatism is still thriving, only with the names and publications changed. That is not an absurd proposition, but it sacrifices what was unique about neoconservatism in order to preserve a sense of historical continuity between the Cold War and its aftermath. He would have done better to frame his book not as a study of the rise of neoconservatism, but of its rise and inevitable fall.

FOREIGN AFFAIRS

AGENDA 1995

Critical Issues in Foreign Policy

Foreign Affairs is proud to present *AGENDA 1995: Critical Issues in Foreign Policy,* the second annual edition of the successor to the *America and the World* issue of *Foreign Affairs. AGENDA 1995* places some of the best essays from recent issues of *Foreign Affairs* in one accesible volume, making it ideal for students of international relations. Essays and head-to-head debates between foreign policy experts such as Timothy Garten Ash, Paul Krugman, Zbigniew Brzezinski, Andrei Kozyrev, Anthony Lake, F. Gregory Gause III, and others are sure to spark discussion both in and out of the classroom. Plus, *AGENDA 1995* includes the 1994 Chronology, a day-by-day account of world events in 1994.

To order this timely and informative text, please send a check or money order or call:

FOREIGN AFFAIRS, c/o AIDC
64 Depot Road
Colchester, VT 05446
Telephone: (800) 488-BOOK
FAX: (802) 878-1102

Now Available, 256 pages, $9.95

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Recent Books on International Relations

Political and Legal

FRANCIS FUKUYAMA

The Age of Extremes: A History of the World, 1914-1991. BY ERIC HOBSBAWM. New York: Pantheon Books, 1995, 625 pp. $30.00.

This is a work of great insight coupled with extraordinary blindness. As a history it reflects the author's great erudition and is impressive in the scope of the material that it masters. But it also constitutes a massive failure to come to terms with the central phenomenon it deals with: the extraordinary ability of capitalism to raise living standards, foster democratic political systems, and dynamically surmount the problems it itself creates.

Written by a venerable Marxist historian and intellectual, the book chronicles the "short twentieth century," from the outbreak of World War I in 1914 to the fall of the Soviet Union in 1991. Hobsbawm comes to the gloomy conclusion that capitalist democracy is now facing a serious crisis and will be unable to resolve the problems of global overpopulation and the environment. The only solution, according to the author, is a return to a strong public authority that will concentrate on redistributing rather than creating wealth. Hobsbawm seems not to have reflected on the dismal record of strong centralized governments in dealing with problems like ecology or wealth creation in the past, or the fact that he is simply moving the goalposts now that capitalism has succeeded in resolving those deadly "contradictions" posited by earlier generations of socialists. Phenomena that don't fit his argument like the rapid growth of capitalist Asia get short shrift (he for some reason believes that the latter comprises only two percent of the world's population).

The Lucifer Principle: A Scientific Expedition into the Forces of History. BY HOWARD BLOOM. New York: Atlantic Monthly Press, 1995, 466 pp. $24.00.

Call for any book reviewed or advertised in this issue

Order books reviewed or advertised in *Foreign Affairs* through Book Call. Prompt shipment worldwide, express service available. Major credit cards welcome. Mailing address: *Foreign Affairs*, c/o Book Call, 59 Elm Street, New Canaan, CT, USA 06840. ***Call 1 (800) 255-2665. Worldwide: 1 (203) 966-5470. Fax: 1 (203) 966-4329.***

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

This book demonstrates that nature is not, contrary to Rousseau and his contemporary environmentalist followers, in the least bit benign or peaceful, and that destructive urges are hard-wired deep into our genetic systems. Like James Q. Wilson's *The Moral Sense,* but in a darker and more popularized way, this book draws heavily on biological and anthropological evidence to show that human beings are not by nature isolated, self-interested individuals but have powerful natural inclinations toward social groups, and that much of the violence and cruelty that has characterized human history is rooted in competition between groups for status and domination.

The problem with this approach in explaining contemporary phenomena like religious fanaticism or ethnic conflict is that the sociobiological impulses described in the book are all mediated by factors like culture, social structure, institutions, law, and historical experience. It is the latter factors, rather than raw genetic impulses, that explain why Bosnia and not Lithuania has exploded in genocidal violence recently. Moreover, it is too facile to say that the impulse toward group identity is the basis for war and intolerance; it is also the basis for every positive aspect of human social life as well.

Quiet Cataclysm: Reflections on the Recent Transformation of World Politics. BY JOHN MUELLER.
New York: HarperCollins, 1995, 221 pp. $16.00 (paper).

The essays in this book are a sensible antidote to the apocalyptic literature coming from academics and foreign policy professionals recently in trying to characterize the post–Cold War order. Mueller is guardedly optimistic about the world, given the much lower likelihood of major war, and notes that the pessimists have arrived at their conclusions by romanticizing the stability of the Cold War, overemphasizing Europe at the expense of other parts of the world, or raising the standards for world order so high as to be unattainable in this or any other age. Other essays argue against structural realist interpretations of the Cold War in favor of the importance of ideas, revisit the author's earlier views on the obsolescence of war, and look at the relationship of democracy and peace.

Human Rights Watch World Report 1995. BY HUMAN RIGHTS WATCH.
New York: Human Rights Watch, 1994, 362 pp. $25.00 (paper).

The work of the human rights monitors chronicled here constitutes a valuable international public service; many of the abuses, particularly in lesser-known countries, would go completely undocumented but for the work of the organizations contributing to the report. This year's report on human rights around the world makes for depressing reading, with a massive genocide in Rwanda, ongoing "ethnic cleansing" in the former Yugoslavia, religious terrorism in Algeria, communal violence in the Transcaucasus and Central Asia, and the like. The authors of the report harshly criticize the Clinton administration for practicing what they label "mercantilist" diplomacy by granting most-favored-nation status to China, the United Nations for a misguided neutrality in Yugoslavia and elsewhere, and the world community as a whole for its failure

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

to stop the ethnic killings in Rwanda. In their criticisms of the policies of the United States and other governments, however, the authors sometimes argue as if there were no legitimate foreign policy interests other than defense of human rights and tend to underestimate the risks, costs, and dangers of intervention to prevent human rights abuses.

The Great Powers and Global Struggle, 1490–1990. BY KAREN A. RASLER AND WILLIAM R. THOMPSON. Lexington: University Press of Kentucky, 1994, 275 pp. $35.00.

This book seeks to explain the periodic rise and fall of hegemonic powers, including Portugal, the Netherlands, Britain, and the United States. The book surveys the existing literature on the subject of long cycles in international relations, from Arab historian Ibn Khaldun to Russian economist Nikolai D. Kondratev to Paul M. Kennedy, and compares their hypotheses with a substantial amount of empirical data. The authors' conclusions for the historical cases are broadly structural: states rise because of some innovation on their part and decline because that innovation diffuses to new challengers. Many long-wave theories, however, are built around factors like naval power or accidents of European geography that seem hardly relevant in an age of information-dependent global economic integration.

The Sovereign State and Its Competitors. BY HENDRIK SPRUYT. Princeton: Princeton University Press, 1994, 288 pp. $39.50.

The changes of recent years—economic interdependence, growth of regional and international organizations, and self-assertion on the part of new subgroups or transnational groups—have led many to speculate that the post-Westphalian system of sovereign states is fundamentally shifting. This intriguing book argues that nation-states and territorially sovereign powers were not the only possible form of organization, and that the end of the Middle Ages saw the flowering of a variety of alternatives, including the league of city-states and the independent city-state. The author argues that the latter two were superior to the feudal forms they replaced and coexisted for an extended period. The sovereign state won out against these rivals only later. The book shows the limitations in the realist assumption of an international order made up exclusively of nation-states. The author's argument against other progressive views of history seems overdone, however, since his own theory ends up with the same teleological result: the nation-state eventually won out against its rivals because it was superior. The question for the future is whether the world is sufficiently different that this margin of superiority is no longer decisive.

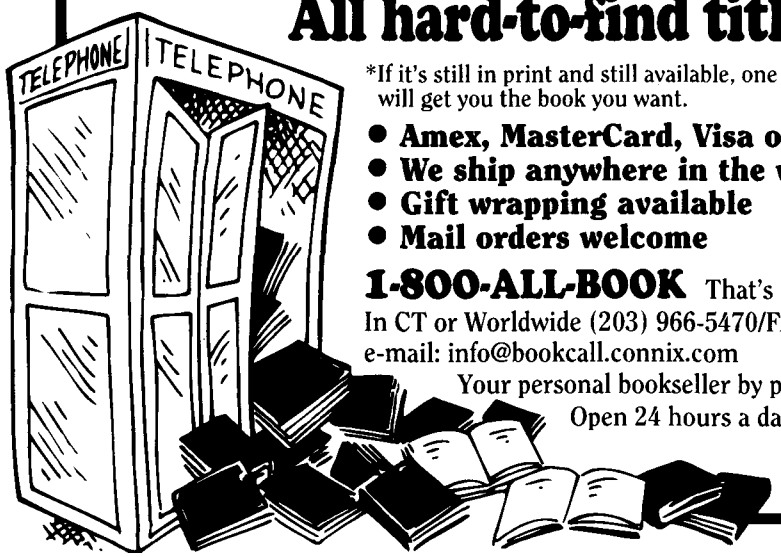
Towards a Global Village: International Community Development Initiatives. BY MICHAEL SHUMAN. Boulder: Pluto Press, 1994, 189 pp. $66.50 (paper, $17.95).

Frequently dismissed by governments and foreign policy professionals, community development initiatives constitute a new layer of international civil society that is becoming an important autonomous actor. Supporting mostly environmental, antinuclear, feminist, or "balanced development" objectives, CDIs

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Call 1-800-All-Book

All books All publishers
All hard-to-find titles*



*If it's still in print and still available, one toll-free phone call will get you the book you want.

- **Amex, MasterCard, Visa or check**
- **We ship anywhere in the world**
- **Gift wrapping available**
- **Mail orders welcome**

1-800-ALL-BOOK That's 1-800-255-2665
In CT or Worldwide (203) 966-5470/FAX 1-203-966-4329
e-mail: info@bookcall.connix.com
Your personal bookseller by phone
Open 24 hours a day

BOOK CALL®
59 Elm Street
New Canaan, CT 06840

GEORGETOWN UNIVERSITY

Dean, School of Foreign Service

Georgetown University is seeking a Dean of the Edmund A. Walsh School of Foreign Service, the oldest and largest school of international affairs in the United States. The School offers undergraduate and graduate degrees in international affairs and regional studies programs.

The University seeks a candidate who will provide intellectual and organizational leadership within the School, the University, and its many constituencies. This would include curricular oversight, faculty development, advancement of scholarship, and fundraising. Accordingly, candidates should have distinguished stature in academic and professional communities, administrative experience, demonstrated interest in public and international affairs, and the ability to articulate and implement the mission of the School.

Applications and nominations will be reviewed commencing in early April and will continue until the position is filled.

Applications and nominations should be submitted to:
Chair, School of Foreign Service Search Committee, c/o Office of the President, Georgetown University, 37th & O Streets, NW, Washington, DC 20057.

Georgetown University is an Affirmative Action/Equal Opportunity Employer.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

EUROPA FOR ALL YOUR REFERENCE NEEDS

SOUTH AMERICA, CENTRAL AMERICA & THE CARIBBEAN 1995

This outstanding work provides an incomparable source of factual and statistical information on every country in this immense region. Expert articles discuss topical issues such as the drug crisis and the destruction of the rain forest.
ISBN: 1 85743 003 4 $295

THE INTERNATIONAL DIRECTORY OF GOVERNMENT 1995

Comprehensive guide to people in power in every part of the world. Details over 15,000 entries for government ministries, departments, agencies, corporations and their connected bodies.
ISBN: 1 85743 004 2 $345

For further information or a free catalogue contact: Lucette Fogarty on Tel: 0171 580 8236, Fax: 0171 637 0922

EUROPA PUBLICATIONS
18 Bedford Square, London WC1B 3JN. England

Institute for International Economics

New Study Reassesses the Debt Crisis in Latin America

International Debt Reexamined
William R. Cline

This study reviews policy reform and Brady plan results for Major Latin American countries; provides new analysis of today's debt problems in Russia and Africa; and analyzes emerging capital markets, with a special chapter on the implications of the Mexican peso crisis.

". . .the definitive work on the debt crisis."
—Paul Volcker

January 1995. Tables *Figures * Index * 550 pp. Paper,
ISBN 0-88132-8-083-8 $25.00

FOR ORDER INFORMATION OR A CATALOG WRITE, FAX,OR CALL TOLL FREE:

INSTITUTE FOR INTERNATIONAL ECONOMICS
11 DUPONT CIRCLE, NW (DRAWER FA)
WASHINGTON, DC 20036
PHONE: (800) 229-ECON
FAX: (202) 328-0900

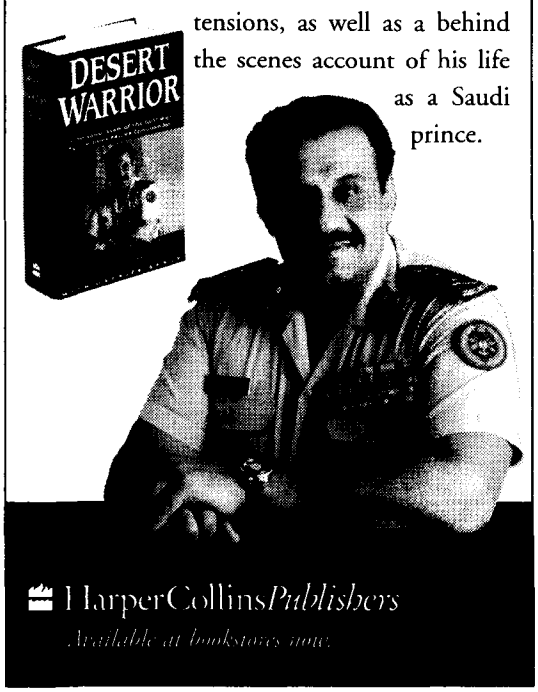
HRH GENERAL KHALED BIN SULTAN

DESERT WARRIOR

A PERSONAL VIEW OF THE GULF WAR BY THE JOINT FORCES COMMANDER WITH PATRICK SEALE

A RARE GLIMPSE INTO THE LIFE OF A SAUDI PRINCE

He held together a coalition of forces from 37 nations to help defeat Saddam Hussein, liberate Kuwait, and defend his nation. For the first time, read the story of the Gulf War as told by His Royal Highness General Khaled bin Sultan, Commander of the Joint Forces and Theater of Operations. In *Desert Warrior*, General Khaled provides a riveting account of the Gulf War's military battles and cultural tensions, as well as a behind the scenes account of his life as a Saudi prince.



HarperCollinsPublishers
Available at bookstores now.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

link activists in wealthy developed countries with their counterparts in the Third World, often making extensive use of new communications technologies to channel support and advice. A strong CDI proponent, Shuman does not mention less benign groups like the Shining Path's support network in Europe. However, these groups deserve to be taken seriously as an increasingly important part of the post–Cold War terrain.

Nationalism and Nationalities in the New Europe. EDITED BY CHARLES KUPCHAN. Ithaca: Cornell University Press, 1995, 224 pp. $37.50 (paper, $14.95).

While they do not break any new ground, the essays in this book are uniformly well-written and provide a clear and organized discussion of the problem of nationalism in Europe today and its implications for U.S. foreign policy. David Calleo provides a historical context for the modern European understanding of the nation-state in analyzing the thought of Herder and Bosanquet. Ezra Suleiman is on the mark in arguing that pushing for the deepening of the European Union envisioned in the Maastricht treaty may serve to stimulate a nationalist backlash rather than constraining nationalism, as its proponents suggest; broadening to the east is a higher priority. The authors come up with a laundry list of policy implications from economic assistance to educational programs to the suggestion that limited intervention in Bosnia might have been successful. One is left with the strong sense that ethnic conflict in Europe is a problem more effectively analyzed than dealt with by outside powers.

One for All: The Logic of Group Conflict. BY RUSSELL HARDIN. Princeton: Princeton University Press, 1995, 270 pp. $24.95.

If the logic of collective action seeks to answer how groups of self-interested individuals can cooperate for benign purposes like moneymaking, where group and individual rewards do not correspond, the logic of group conflict asks why they can cohere for evil purposes like ethnic cleansing. The author, using examples of conflict like Bosnia and Rwanda, argues that group interests coincide with individual ones properly understood. But, rather than stretching the concept of individual self-interest in this fashion, one can move beyond the model of behavior implicit in rational choice theory to a more complex understanding of human motivations—something that can be done without resorting to primordialist arguments that everything arises out of deep-seated drives. The author also attacks recent communitarian theorists in favor of strict liberal universalism without taking seriously the importance of nonexclusive, voluntary community as a counterweight to liberal individualism.

United Nations Legal Order, 2 vols. EDITED BY OSCAR SCHACHTER AND CHRISTOPHER C. JOYNER. New York: Cambridge University Press, 1995, 1,166 pp. $180.00.

These weighty tomes, written by a team of eminent experts in international law, comprehensively survey the impact of the

To order any book reviewed or advertised in *Foreign Affairs,* call 1-800-255-2665.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

U.N. system on the international legal order. They methodically and in great detail cover issues like general and specialized law-making, human rights, use of force, refugees, and the like. They do not make for light reading and are likely to be a point of reference primarily for international law specialists.

Economic, Social, and Environmental

RICHARD N. COOPER

Capitalism with a Human Face. BY SAMUEL BRITTAN. Brookfield: Edward Elgar, 1995, 292 pp. $79.95 (paper, $23.95).

The author addresses the ethical foundations of competitive capitalism from a strong and explicit individualist perspective, but he argues that communities of individuals should help their least fortunate members and to this end urges a scheme of basic income support. Despite the occasional crack about Cambridge (Mass.) economists, this is a book well worth reading and pondering.

Voted the world's most influential economic journalist in a 1994 poll, Brittan combines gentle common sense with hard-headed analysis. He does not shrink from unconventional conclusions—for example, that the governments of major countries pay much too much attention to trade imbalances in today's world of integrated capital markets—or from conclusions that will offend some liberals, for example that high minimum wages reduce employment, even though he considers himself a (British) liberal. The book republishes some earlier essays but contains much new material and attempts to shape it all into an integrated view.

The Central Banks. BY MARJORIE DEANE AND ROBERT PRINGLE. New York: Viking, 1995, 369 pp. $29.95.

The Confidence Game: How Unelected Central Bankers are Governing the Changed Global Economy. BY STEVEN SOLOMON. New York: Simon and Schuster, 1995, 578 pp. $30.00.

These two books, both written by accomplished journalists, complement one another nicely. The first is serious but not scholarly. It has neither footnotes nor references. The authors adopt the currently fashionable view that central banks should be charged exclusively with achieving price stability and should be held publicly accountable to that objective. Other objectives, such as safety and soundness of banks, stability in financial markets, and smoothing real economic activity are subordinate. The doubtful wisdom of this framework for central banks does not undo the many other merits of this book. It covers the history, evolution, and contemporary travails of central banks, including their domestic and international roles and concerns. Despite occasional analytical flaws, it is a clear and informative exposition. The authors discuss adequately the prospective European monetary union.

In contrast, the book by Solomon offers action-filled, blow-by-blow accounts of central bankers during the emergencies of the 1980s: inflation, the debt crisis, the decline and stabilization of the dollar, stock market jitters, and

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

forcing adequate capital on commercial banks. The details are better than the overall impression conveyed by the author, who is given to hyperbole. Chapter headings announce escaping from the "abyss," a "financial Dunkirk," and "Armageddon." We read endlessly about the dangers from the "uncontrolled, revolutionary political force of stateless money." The book concludes with endorsement of central bank independence (such as that already enjoyed by the U.S. Federal Reserve) combined with strong public accountability. Based on 300 interviews, the book draws heavily on direct quotations from participants in the various episodes; it is lively, informative, and revealing. As befits a contemporary history, it contains 64 pages of source notes.

The End of the Nation State: The Rise of Regional Economies. BY KENICHI OHMAE. New York: The Free Press, 1995, 199 pp. $25.00.

This short book puts forward three theses: world markets, including many services, have and will continue to become highly globalized; the modern nation-state has developed too many rigid rules and practices—fiercely defended by special economic interests, including income transfers to poor regions—to cope with rapidly changing international economic circumstances and opportunities; and new "region-states" of 5 to 20 million persons, possibly crossing national boundaries, represent the natural unit of economic growth, enjoying economies of scale in services (e.g., advertising) but too small to entertain delusions of self-sufficiency in anything. The economic action of the future, says Ohmae, will be in such regional clusters, spreading economic benefits to their neighboring regions.

The first two theses have much merit but have been around for some time. The third has some novelty, and a number of interesting observations are made, but the concept is too amorphous to be useful. In principle it encompasses many of the smaller European countries, which nonetheless have succumbed to the rigidities that the author observes in larger nations. The author is especially scathing about both foreign and domestic proponents of a Japanese "miracle" driven by a MITI-guided Japan, Inc.

A Moment on the Earth: The Coming Age of Environmental Optimism. BY GREGG EASTERBROOK. New York: Viking, 1995, 745 pp. $27.95.

Twenty-three informative chapters on all the major environmental topics, ranging alphabetically from acid rain to water. A recurrent theme is that newspapers and popular magazines report prominently any claim regarding bad or worsening environmental conditions but downplay news about good or improving conditions, thus leaving ordinary citizens with the badly incorrect impression that environmental conditions have been seriously worsening. The book suggests considerable optimism about the future, based not on policies of inaction, but on action well thought out.

Written by a self-styled political liberal, this book is long, fact-filled, and sensible, staking out what the author calls "ecoreal-

To order any book reviewed or advertised in *Foreign Affairs*, fax 1-203-966-4329.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

ism." He credits the environmental movement for generating useful political pressure for action, which has gained wide political support in Europe and North America in the last three decades and has stimulated useful environment-improving technological changes. However, "environmentalists, who are surely on the right side of history, are increasingly on the wrong side of the present, risking their credibility by proclaiming emergencies that do not exist." He deplores the hype, exaggerations, and downright lies perpetrated by some so-called environmentalists, for whom environmental damage simply provides the latest handle to attack the capitalist system.

The Transformation of the World Economy, 1980-93. BY ROBERT SOLOMON. New York: St. Martin's Press, 1995, 238 pp. $39.95.

Organized geographically, the book covers all the major rich countries, the former communist countries, China, and the major countries of Latin America and the Middle East. A useful review of the major thrusts and alterations in national economic policy and performance over a remarkable period from the 1980s to the early 1990s. The book provides little discussion of the international economy as a whole, including trade liberalization, the remarkable growth in international capital movements despite the debt crisis of the early 1980s, and the gradual shift by many countries to floating exchange rates. Sub-Saharan Africa warrants only a page, and Nigeria, the world's eighth-most populous state, gets no discussion at all.

Military, Scientific, and Technological

ELIOT A. COHEN

The Coming Plague: Newly Emerging Diseases in a World Out of Balance. BY LAURIE GARRETT. New York: Farrar, Straus, and Giroux, 1994, 750 pp. $25.00.

A sprawling, engrossing, even terrifying study of how humankind can expect to suffer continuous lethal eruptions of illness, despite the progress of medicine. The fundamental idea has caught on broadly, but Garrett, a gifted popular science writer, is enlightening on many of the subthemes and details, from Ebola and Marburg virus to HIV, hanta viruses, and seal plague. The increasing ease of international travel and the creation of megacities conducive to the spread of disease are two matters of particular importance to those concerned with international relations. Indeed, as reflection on medical history suggests, the spread and course of pandemics may affect international relations in powerful ways. A shorter book might have been made of this text, and the writing has a distinctly panicky edge, but on balance, after reading this work one begins to think a note of hysteria may be justified.

Presidential War Power. BY LOUIS FISHER. Lawrence: University Press of Kansas, 1995, 245 pp. $29.95.

Fisher, a senior researcher at the Congressional Research Service, believes that the discretion allowed modern presidents in the use of military power would have come as an unpleasant sur-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

prise to the framers of the Constitution. He deplores what he occasionally refers to as monarchical tendencies in the White House; indeed, he even objects to assertions that the president is "pre-eminent in foreign affairs." Three-quarters of the book deals with the postwar period, but in light of the author's fundamental contention it is odd that the chapter on the Constitution itself is only 12 pages long, and that Lincoln's breathtaking assertion of executive power during the Civil War merits only some three pages of text. The author relies chiefly on court opinions and public papers of the presidents. The result is a clearly argued and well-documented work, written from the point of view of a student of constitutional law, not a scholar or practitioner of foreign policy and international relations.

Heart of the Storm: The Genesis of the Air Campaign against Iraq. BY RICHARD T. REYNOLDS. Maxwell Air Force Base: Air University Press, 1995, 147 pp.

Lucky War: Third Army in Desert Storm. BY RICHARD M. SWAIN. Ft. Leavenworth: U.S. Army Command and General Staff College Press, 1994, 369 pp.

Reynolds and his colleagues convincingly (though at times luridly) contend that the Air Force was far from united behind Colonel John Warden's concept of independent strategic operations in the Persian Gulf War. Reynolds opens with an apologetic note by the commander of Air University, who expresses deep concern about the way the author characterizes people. And rightly so: the product of an extensive interview project conducted by several Air Force officers, this monograph has heroes and villains. Leading the heroes is air power zealot Warden, whose small cell of planners in the late summer of 1990 laid the conceptual groundwork for the air attack on Iraq. The villains are various senior officers, many from the Air Force's own Tactical Air Command. A flawed study this, one that scorns the written record, makes liberal and implausible use of quotation marks and exclamation points, and is clearly partisan.

An altogether superior work, Swain's book contends that this was a war won, in many respects, well before it started, and that if the plan and its execution were not, despite some postwar myth-making, overly elegant, they did not need to be. A sober and scholarly study of the Third Army—the army component of Central Command's forces in the Persian Gulf—it is written primarily for military officers but deserves a wider audience. Swain was in Saudi Arabia during the war, but he draws primarily on written sources and brings to bear the trained judgment of both warrior and scholar. Although its tone is more guarded, the book is astringent in its judgment of some top people. Swain examines the weaknesses as well as the strengths of army planning, including what he describes as staff officers' occasionally scholastic preoccupations with operational pauses and the culminating point of victory. Two very different books, each calculated to make generals mad.

To order any book reviewed or advertised in *Foreign Affairs*, call 1-800-255-2665.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Somalia and Operation Restore Hope: Reflections on Peacemaking and Peacekeeping. BY JOHN L. HIRSCH AND ROBERT B. OAKLEY. Washington: United States Institute of Peace, 1995, 215 pp. $19.95 (paper).

Somalia Operations: Lessons Learned. BY KENNETH ALLARD. Washington: National Defense University, 1995, 113 pp. $4.25 (paper).

In a mixture of memoir and postmortem, Hirsch and Oakley describe in considerable detail the diplomacy, and to a lesser extent the military action, that the United States embarked on with and through the United Nations. Although the authors, who served with distinction during America's curious and bloody 1992-94 Somalia involvement, are cognizant of the failures of American policy, they lay considerable stress on the success of its humanitarian phases. They conclude by advocating a cautious, tough-minded willingness to engage in such enterprises.

Colonel Allard expresses the views of many officers in holding that a commitment to disarm a population is a commitment to combat and in his preference for brief, sharply limited, and crisply organized peace operations. Allard's slender volume is a distillation of the military's official lessons and hence falls back on true but trite observations: an effective public information program is critical to the success of any operation, mission execution is more difficult without trained and well-organized staffs, and the like.

Neither book adequately deals with the hypothesis that only long-term commitments of military power to a policing role can turn around a failed state like Somalia. And neither is quite willing to take on the contention that, whether or not it succeeded in relieving some of Somalia's misery, the intervention was a foreign policy disaster for the United States.

Revolt of the Admirals: The Fight for Naval Aviation, 1945-1950. BY JEFFREY G. BARLOW. Washington: Naval Historical Center, 1994, 420 pp. $30.00.

In 1949 Secretary of Defense Louis Johnson canceled a pet carrier project of the U.S. Navy while supporting the Air Force's B-36 heavy bomber program. A terrific feud between the services broke out, in which Navy personnel leveled dark accusations of malfeasance at Air Force officials. In the ensuing feud over nuclear weapons–equipped bombers and the importance of carrier aviation, a chief of naval operations found himself forced out of office in what became known as "the revolt of the admirals."

Barlow's scholarly study is sympathetic to the admirals, and he argues that their congressional testimony and lobbying helped lay the foundations for the recovery of carrier aviation during the 1950s. Yet this book is also valuable as a study of civilian-military relations in a time of uncertain geopolitics, technological flux, limited financial resources, and interservice competition—a time, in short, that in important respects resembles our own.

Cooperation under Fire: Anglo-German Restraint during World War II. BY JEFFREY W. LEGRO. Ithaca: Cornell University Press, 1995, 245 pp. $35.00.

It is revealing that the author declares that "the Nazi state was vanquished without ever using its huge chemical arsenal." It most certainly did use such gruesome

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

weapons—but only against the populations of the death camps, bereft of friends, weapons, or the frail shelter of belief in a common humanity. Legro is interested in the limited areas of mutual restraint shown by two of the great contestants of World War II, with regard to submarine operations, strategic bombing, and chemical warfare. In some instances (e.g., submarine attacks on merchant shipping) restraint was short lived; in others (chemical warfare) it was more durable. Legro, a political scientist, uses three conceptual lenses—realism, institutionalism, and organizational culture—to examine these cases. The cases are interesting and reasonably well-executed historical studies, drawing on primary as well as secondary sources, although the self-conscious social science structure is occasionally irritating. By dint of hard looking, the author finds more cooperation, and makes more of it, than most of his readers will. Legro views the mutual restraint shown by Germany and Great Britain as a "hopeful kernel" rather than an oddity or a distinctly minor aspect of World War II.

Iran and Iraq: The Threat from the Northern Gulf. BY ANTHONY H. CORDESMAN. Boulder: Westview Press, 1994, 380 pp. $64.95.

The conclusion—that the United States is the crucial guarantor of Persian Gulf security and needs to play that role with some adroitness—is sound if unsurprising. But the main value of this book, which examines security problems posed by these uneasy neighbors over the last five years, lies in eight chapters of accumulated technical, organizational, and operational detail. The author's forte is the massively documented military study, and this volume, amply furnished with chronologies, tables, and technical data, is no exception.

Asymmetric Conflicts: War Initiation by Weaker Powers. BY T. V. PAUL. New York: Cambridge University Press, 1994, 248 pp. $54.95 (paper, $19.95).

This dissertation turned book looks at six cases of weaker states attacking stronger ones. Stripped of its political science superstructure, part of the reason they did it is that they thought they could get away with it. However, an ability to launch a limited surprise offensive and then assume the defensive helped, as did some expectation of patronage from other powers. In some cases, decision makers simply underestimated the resolve or capabilities of their opponents, which suggests that military power is more difficult to assess than it would appear in retrospect. This latter proposition deserves greater exploration than it receives here. Nonetheless, the case studies are well presented, and the argument clearly put.

Strategic Assessment 1995: U.S. Security Challenges in Transition. BY THE INSTITUTE FOR NATIONAL STRATEGIC STUDIES, NATIONAL DEFENSE UNIVERSITY. Washington: National Defense University, 1995, 206 pp. $19.00 (paper).

The first in what one hopes will be a series from the U.S. Naval Institute. The chapters of this survey, written by Naval

To order any book reviewed or advertised in *Foreign Affairs,* fax 1-203-966-4329.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Institute staff and a few consultants, consider a range of subjects from the security problems of the world's regions to international disputes about the oceans and peacekeeping to information technologies and changes in the very nature of the sovereign state. The result is an intelligent and occasionally provocative collection of studies. Handsomely produced, this volume makes ample and skillful use of color graphics, including charts, maps, and tables.

The United States

DAVID C. HENDRICKSON

The Next American Nation: The New Nationalism and the Fourth American Revolution. BY MICHAEL LIND. New York: The Free Press, 1995, 415 pp. $22.95.

Lind, a senior editor at *The New Republic,* is a rising young intellectual. His book is an extraordinary performance, breathtaking in its audacity, combining an original reinterpretation of American history with a double-barreled attack on New Left and New Right. He is equally contemptuous of affirmative action and of the oligarchical privileges of the "white overclass," whose ideal, he writes, "is not the city on a hill, but the mansion behind a wall." He warns of the "Brazilianization" of American society—a "high-tech feudal anarchy featuring an archipelago of privileged whites in an ocean of white, black, and brown poverty"—a future that would be hastened by the program of the conservative anti-statists now in control of Congress (and to which, in Lind's view, continuing high levels of immigration and free trade with low-wage economies make a vital contribution). Lind's diagnoses are more convincing than his remedies—protectionism and "maximum feasible paternalism"—but there is no denying the utter brilliance with which, like Sherman marching to the sea, he rains fire on his ideological adversaries (a motley collection of nativists, plutocrats, democratic universalists, free-trade globalists, and multiculturalists). This fevered and incendiary manifesto promises to reshape our understanding of American politics.

Alien Nation: Common Sense about America's Immigration Disaster. BY PETER BRIMELOW. New York: Random House, 1995, 288 pp. $23.00.

Brimelow, a senior editor at *Forbes* and *National Review* and himself an immigrant from Britain, argues that the consequences of the last great revision of American immigration law in 1965 have been nothing short of catastrophic. Though he insists, implausibly, on defining American identity in racial as opposed to cultural terms, he does raise a range of objections against current immigration policies that, cumulatively, are powerful. The conjunction between recent immigration and multiculturalism is highly disturbing, as is the effective preference given to unskilled immigrants as a consequence of the family unification provisions of the 1965 law. There is, nevertheless, an extreme character to both his depiction of the problem and his suggested remedies. It is not true that immigration is "wholly and

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

entirely the result of government policy," and it is absurd to suggest that Quebec's notorious language laws might form a model for the United States, however insistent Americans may be on assimilation. Brimelow confesses at one point to an "honest perplexity in the face of issues that are as difficult as any that have faced a free society." Had he held fast to that idea he would have written a better book.

Rogue States and Nuclear Outlaws: America's Search for a New Foreign Policy. BY MICHAEL T. KLARE. New York: Hill and Wang, 1995, 291 pp. $25.00.
The author, defense correspondent for *The Nation,* examines the post–Cold War strategic doctrine directed against "rogue states"—a doctrine requiring, in the Pentagon's view, the capacity to wage two Desert Storms at the same time. Klare argues that the new doctrine exaggerates the threat posed by the outlaws and forecloses the possibility of shifting economic resources away from defense to other priorities. He argues instead for reduced military forces restructured for peacekeeping and peace enforcement operations alongside a foreign policy directed toward the root causes of global violence (such as overpopulation, resource conflicts, and widespread poverty). Klare's alternative agenda is quite ambitious; much of it, rightly or wrongly, seems blocked by the deeply entrenched opposition of the public to foreign aid. There is an unexplored tension in the work between his desire to "alleviate the security concerns of Third World powers"—a necessary objective if nonproliferation efforts are to succeed—and his skittishness over extending credible U.S. military guarantees. One wonders whether the sharp reduction in military spending he urges is compatible with the guarantees of regional disarmament he wants the "major powers," including the United States, to give.

Modernity and Power: A History of the Domino Theory in the Twentieth Century. BY FRANK NINKOVICH. Chicago: University of Chicago Press, 1994, 418 pp. $49.95 (paper, $19.95).
Ninkovich, a professor of history at St. John's University, centers his investigation on the worldviews of presidents from Theodore Roosevelt to Lyndon Johnson, with Woodrow Wilson—the originator of the domino theory—occupying the starring role. America's Cold War strategy emerges as an "ongoing attempt to work out neo-Wilsonian solutions to a nightmarish set of problems first defined by Wilson." Though writing primarily as an intellectual historian, and thus concerned with tracing the assumptions and implications—as opposed to the merits—of this worldview, Ninkovich is basically sympathetic to the globalist vision it produced. The author has a delightful gift for inventive metaphor but also a penchant for abstraction that sometimes makes the text rough going. Still, this book represents a very considerable achievement, with superb portraits, in particular, of Herbert Hoover, Dwight Eisenhower, and John Kennedy.

To order any book reviewed or advertised in *Foreign Affairs,* call 1-800-255-2665.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

The Peace Progressives and American Foreign Relations. BY ROBERT DAVID JOHNSON. Cambridge: Harvard University Press, 1995, 448 pp. $45.00.
This prodigiously researched volume examines a group of maverick senators, including William Borah, Robert La Follette, and many lesser lights, who developed an acerbic critique of American foreign policy from the First World War to the 1930s. Generally opposed to a military buildup before the war and keen on disarmament in the 1920s, they championed self-determination for colonized peoples and normally condemned U.S. interventions in the western hemisphere. They hated the League of Nations in part because it required cooperation with the paragons of Old World diplomacy. At pains to show that the peace progressives had a coherent outlook, Johnson calls their perspective a left-wing alternative to Wilsonianism and the "business internationalism" of 1920s Republicans. But these great naysayers drew also on conservative traditions, which helps explain the striking resemblance between the peace progressives and today's paleoconservatives.

John Quincy Adams and the Public Virtues of Diplomacy. BY GREG RUSSELL. Columbia: University of Missouri Press, 1995, 295 pp. $42.50.
This is a fine evocation of the outlook of one of the titans of early American statecraft, a "second founder" of the republic whose public career as diplomat and elected official spanned over half a century. Adams' oft-quoted warning against crusading abroad is not the only respect in which he conveys lessons for the present age. Adams was drawn inexorably, as Russell notes, to the intersection of ethics and statesmanship. Adams brought to the task of reconciling power and principle a fierce independence from partisan claims and a deep education in classical and Christian traditions. Russell shows how Adams effected a certain junction between Hamiltonian realism and Jeffersonian idealism—a synthesis that remains, in vastly altered circumstances, a vital task of contemporary American statecraft.

The Atlantic Charter. EDITED BY DOUGLAS BRINKLEY AND DAVID R. FACEY-CROWTHER. New York: St. Martin's Press, 1994, 202 pp. $39.95.
Eight essays by British, American, and Canadian historians, which explore the historic eight-point declaration of principles Winston Churchill and Franklin Roosevelt adopted in August 1941. The essays by Theodore Wilson and David Reynolds assess the circumstances immediately surrounding the charter's promulgation, with Reynolds noting the deep suspicion of the United States in official British circles, which the leaders' face-to-face encounter did little to allay. Lloyd Gardner and Warren Kimball examine the dilemmas Roosevelt subsequently faced in giving concrete form to the charter's glittering generalities. Apart from a few passages in Kimball's essay, little attention is given to the ideological origins of the charter. The focus instead is on, in Gardner's words, the "inherent contradictions between the Wilsonian worldview as expressed in the Atlantic Charter and what Big Three requirements demanded." Roosevelt's

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

apparent belief that he could reconcile these contradictions through personal diplomacy with Stalin remains the principal enigma of the whole story.

Western Europe

FRITZ STERN

Excellent Cadavers: The Mafia and the Death of the First Italian Republic. BY ALEXANDER STILLE. New York: Pantheon Books, 1995, 467 pp. $27.50.

A riveting account of the often obstructed fight against the Sicilian Mafia and its system of corruption and drug trade, a system enforced by terror and murder, with tentacles abroad and links to Italian politics. By tenacious use of interviews and public accounts, Alexander Stille, a young and very able investigative reporter, pieces together the story and puts it in the context of post–Cold War Italian politics and the recent efforts to bring to justice a political class guilty of routine corruption. The willingness of Mafiosi to talk—at first only two of them and then an ever-widening stream—informed prosecutors in both Italy and the United States. The book has its heroes: judge Giovanni Falcone and prosecutor Paolo Borsellino, who finally and against huge odds uncovered the structure of the Cosa Nostra crime network and set in motion the first effective struggle against the criminals. The Mafia killed them both, but their deaths aroused an Italian public at last to press for a radical cleansing of this moral and financial morass. A fervently, lucidly written work of great importance.

The European Sisyphus: Essays on Europe, 1964–1994. BY STANLEY HOFFMANN. Boulder: Westview Press, 1995, 326 pp. $69.95 (paper, $19.95).

A master analyst of contemporary Europe, a veteran observer of French affairs has collected some of his essays written in the last three decades, dealing with the state of Europe from de Gaulle to Gorbachev. The tone belies the title, though Hoffmann emphasizes the hard constraints on policies leading to European integration and in the end concludes that today's European Union is an incomplete construction without historical analogue. Throughout he assesses America's presence, now weakening, as well.

Unlike many of his academic colleauges, he has a clear sense of the importance of personal-cultural factors in international affairs; he is very good on the qualities of leadership needed—and all too often lacking. The essays reflect Hoffmann's changing views; the repetition of some themes is inevitable in an unrevised collection. Erudite, skeptical, ever-stimulating, affecting detachment, Hoffmann is deeply *engagé,* as was his great model, Raymond Aron.

Conor: A Biography of Conor Cruise O'Brien. BY DONALD HARMAN AKENSON. Montreal: McGill-Queens University Press, 1994, 573 pp. $34.95.

An authorized but quite independent biography of an Irish phenomenon, written by a Canadian historian of things Irish. O'Brien's life encompassed Irish politics, a major stint at the United

To order any book reviewed or advertised in *Foreign Affairs,* fax 1-203-966-4329.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Nations under the much-respected secretary general, Dag Hammarskjöld, an academic career in New York (a sojourn in the 1960s among its intellectuals and the anti-Vietnam stance that he embraced), and a return to Irish politics and his fight against Irish Republican Army terrorism. Finally, O'Brien, the writer, recently completed a biography of a fellow Irishman, Edmund Burke. A life-and-times biography, candid and admiringly critical, an entertaining appraisal of a boisterously controversial figure.

German Nationalism and Religious Conflict: Culture, Ideology, Politics, 1870–1914. BY HELMUT WALSER SMITH. Princeton: Princeton University Press, 1995, 271 pp. $39.50.

An important study, widely researched, of the continuing conflict between Protestants and Catholics in unified Germany, a central but much-neglected theme of modern German history. Smith, a young American historian, describes the cultural and political expressions of this conflict to the very eve of the Great War and suggests that the confessional groups developed their own variety of national consciousness. The book is novel in substance and interpretation: Smith shows that the religious antagonisms often sprang from below and that the major Protestant organization was pushed ever-closer to a radical right-wing nationalism. He discovered that German Catholics—with Vatican support—tried to weaken Polish Catholicism. The book has obvious implications for Weimar and reminds us that one of the most important changes of post-1945 Germany has been the attenuation, almost the end, of the religious conflict. By virtue of its breadth and rich intelligence the book exemplifies the true potential of the academic monograph.

Turning Points in Modern Times: Essays on German and European History. BY KARL BRACHER. Cambridge: Harvard University Press, 1995, 338 pp. $49.95 (paper, $24.95).

Nineteen essays by the distinguished German scholar whose entire work exemplifies the unity of humanistic study. At once a historian and a political scientist, with a trained philosophic bent, Bracher has done more than any other German—and started earlier—to explicate the history and meaning of National Socialism. In these new essays he returns to an analysis of totalitarianism, to the challenges that faced democracy in the interwar years, and to the problems and possibilities of a democratic renaissance in Europe after 1989. A valuable work for an understanding in-depth of thought and politics in our century.

Germany, Hitler, and World War II. BY GERHARD WEINBERG. New York: Cambridge University Press, 1995, 357 pp. $27.95.

A collection of essays and lectures by a leading expert on the global character of World War II. The text focuses on Hitler and the Germans, stressing that the former had planned for a gigantic war as early as the late 1920s and that the latter, partially deceived, supported him. Shrewd and incisive, most of these essays are based on archival research—an experience that leads Weinberg to end with a

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

ringing, persuasive appeal that unless immediate steps for the preservation of various fragile records are taken, future historians will be without the traditional foundations of historical research.

Memories of Resistance: Women's Voices from the Spanish Civil War. BY SHIRLEY MANGINI. New Haven: Yale University Press, 1995, 226 pp. $25.00.
An American scholar has collected stories about Spanish women, describing partriarchal abuse before the civil war and suffering and heroism during the war. Feminist theory seeks to interpret these authentic voices, poignant and rare in themselves.

Nîmes at War: Religion, Politics, and Public Opinion in the Gard, 1938-1944. BY ROBERT ZARETSKY. University Park: Penn State Press, 1995, 276 pp. $50.00 (paper, $18.95).
An analysis of the moods and behavior of the population of one French department, the Gard, which by virtue of its religious composition—Protestants made up a quarter of the population—was probably atypical. Clearly the Protestant groups were more reserved about the great "father figure" Pétain than were Catholics or the hierarchy. The Protestants were also more active in helping Jews. Despite the early support of Vichy, concludes the author, a young American historian working closely with local archives, the Resistance increasingly gained many more *sympathisants*, vital to the struggle against Vichy and the Nazi occupiers.

Western Hemisphere

KENNETH MAXWELL

A New Moment in the Americas. EDITED BY ROBERT S. LEIKEN. New Brunswick: Transaction Publishers, 1995, 130 pp. $19.95 (paper).
This book is an embarrassment to its participants. In advance of the Summit of the Americas, the U.S. Information Agency had the bright idea of convening a conclave of cultural leaders from across the hemisphere. The "conversation" dedicated to the "new moment in the Americas" began at a dinner, hosted by Al Gore, where "to the astonishment of the participants, Gore organized the chairs, in encounter group style, in tight circles in the living room." Gustavo Gutierrez, "father of Latin American liberation theology and, at times, a stern critic of the United States, gave the blessing over the dinner." The misnamed Latin American debt crisis was "actually something far more profound and significant. In that period the entire political and economic structure inherited from Spanish colonialism finally collapsed." Orlando Patterson speaks of "regional cosmoses." Octavio Paz could not attend but "nevertheless remained a towering intellectual presence at the meeting." Leiken includes an abridged 1979 article from *The New Yorker* to represent him in the volume. Richard Rodriguez recycles excerpts from his 1992 *Days of Obligation* and muses how he ended up conceiving of himself as "a *pocho*" in the United States, "reflecting the tragic nature of life." Stanley

To order any book reviewed or advertised in *Foreign Affairs*, call 1-800-255-2665.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Crouch ends lyrically with the "boiling gumbo pot" that is the "transcending power... of the affirmative, miscegenated heat necessary to melt down the iron suits of history."

What a weekend of self-important, portentous waffling must have ensued if this slender, poorly produced, badly edited, and often ludicrous volume is any reflection. Will intellectuals never learn?

The Economic History of Latin America Since Independence. BY VICTOR BULMER-THOMAS. New York: Cambridge University Press, 1995, 485 pp. $69.95 (paper, $17.95).

Bulmer-Thomas addresses the old conundrum: despite the region's abundance of natural resources and a favorable land-to-labor ratio, why hasn't a single Latin American republic become a developed country, and why are external influences preeminent, after almost two centuries free from colonial rule?

In an ambitious, clearly written, and impressively documented economic history, Victor Bulmer-Thomas of the University of London examines the successes and failures of export-led growth in the nineteenth century, the withdrawal into inward-looking, import-substitution economics after the Great Depression, and the debt crisis of the 1980s. He concludes with an examination of the current paths toward a new version of export-led growth. He warns that "the transfer of assets to the domestic private sector, whether through alienation of church wealth, expropriation of foreign property, or the privatization of state assets, has never been used to enhance the competitive environment. Instead, new (often family based) conglomerates have emerged to challenge the hegemony of established groups and join the charmed circle with influence and power over state decisions." Thus, for the new phase to succeed where other phases have failed, Bulmer-Thomas believes that it is essential to find a way to "transform rents into technical progress and total factor productivity growth." The book dedication is also worth noting: "For the 30 percent who receive 5 percent—a ray of hope; for the 5 percent who receive 30 percent—a warning."

Handbook of U.S.-Latin American Policymaking. EDITED BY DAVID W. DENT. Westport: Greenwood Press, 1995, 555 pp. $95.00.

Among the plethora of poorly edited and recycled essays that unfortunately make up the mainstay of collective volumes of this genre, Dent's comprehensive road map to U.S.-Latin American policymaking since the 1960s is a shining exception. For the past 20 years, Dent of Towson State University has been a contributing editor of the authoritative *Handbook of Latin American Studies,* which is produced by the excellent Hispanic division of the Library of Congress, and the experience shows. The book, written with a team of 19 scholars, will be indispensable to academics, journalists, and anyone working in the field. Chapters cover the United States and international economic organizations, interest groups and the media, and who makes Latin American policy. There is a fascinating appendix of political cartoons.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Building Democratic Institutions: Party Systems in Latin America. EDITED BY SCOTT MAINWARING AND TIMOTHY R. SCULLY. Stanford: Stanford University Press, 1995, 578 pp. $60.00.

Overall, this is the best book now available on a central component of Latin American democracy. Given the discipline's abysmal record at prediction and the time lag in scholarly production, the appearance of a weighty tome of this type always carries the risk of becoming an epitaph rather than a harbinger. In this comprehensive volume, which engages many of the leading lights of the field, Mainwaring and Scully, Notre Dame professors and fellows of its increasingly influential Kellogg Institute, begin with the assumption that "institutionalizing a party system is important to the process of democratic consolidation." This was not a commonly held view a few years back when structuralism and determinism colored assessments of representative bodies. Solid chapters cover the major countries, with notable contributions by Mainwaring on Brazil, and Ann Craig and Wayne Cornelius on the somewhat anomalous case of Mexico, where the task of democratization involves deinstitutionalizing the Institutional Revolutionary Party. Political science eventually does catch up with political reality, it seems.

Remaking the Argentine Economy. BY FELIPE A.M. DE LA BALZE. New York: Council on Foreign Relations Press, 1995, 196 pp. $14.95 (paper).

This is an accessible, theoretically sophisticated overview in an informative comparative setting. Felipe de la Balze, active in both academia and the private sector, places the Argentine political and economic turnaround in a broad historical context. How, he asks, could a nation among the most advanced countries of the world in terms of standard of living as well as political and social development after the First World War succumb to anarchy and economic decline? He looks in detail at the reform program instituted with the critical political support of Peronist President Carlos Saúl Menem and the skillful policies and resilient willpower of Minister of the Economy Domingo Cavallo, who formed a partnership strong enough to withstand a tidal wave of panic after the Mexican peso fiasco. De la Balze outlines the tasks that yet lie ahead, formidable in his view, if Argentina is to achieve and sustain high levels of growth and regain the prosperity it once enjoyed.

Eastern Europe and Former Soviet Republics

ROBERT LEGVOLD

Balkan Tragedy: Chaos and Dissolution after the Cold War. BY SUSAN L. WOODWARD. Washington: Brookings, 1995, 400 pp. $38.95 (paper, $16.95).

On what historians 25 or 50 years from now will surely treat as this decade's defining misadventure—unless elsewhere something still worse lies ahead—Woodward provides the definitive contempo-

To order any book reviewed or advertised in *Foreign Affairs,* fax 1-203-966-4329.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

rary study. Woodward, as the great majority who have published before her, believes that the Yugoslav tragedy need not have happened—that it was not encoded in historical ethnic rivalry or the artificiality of the state. But she also seeks to comprehend the tangled skein of events unfolding at the base of this history. The quest leads in surprising directions. For example, she discovers that in the 1980s, perversely, the liberal economic policies urged on the Yugoslavs by the international community contributed much more to the gathering centrifugal forces than the bitterest historical memories. Indeed, a greater and sadder irony is how in virtually every instance, due to faulty premises and shallow understanding, Western policies produced outcomes almost perfectly opposite the ones intended—from the initial efforts to foster economic reform and a greater respect for human rights in a post-Tito Yugoslavia, through the response to the first signs of breakup, to the futile rejoinders to the wars themselves.

Among the inside participants, Serb nationalists and the man who made himself their leader, Slobodan Miloševi´c , remain in the forefront of those who undid the federation and then set the blood to flowing. But in Woodward's recounting, the impulses behind their actions and the cast who share responsibility turn out to be immensely more complicated than anyone else has suggested. Woodward is a first-rate social scientist, and she brings to bear a great deal of the best in theory—without ever letting on what she is up to, a model to academics who wish to communicate with a broad audience.

How Russia Became a Market Economy. BY ANDERS ÅSLUND. Washington: Brookings, 1995, 326 pp. $39.95 (paper, $16.95).

Åslund—an expert on the Soviet economy and its reforming successors—along with his colleague Jeffrey Sachs, was there from the start, and he gives the reader all the flavor of what it was like to strike up a relationship with former Prime Minister Yegor T. Gaidar and the other bright young Western-oriented economists at the moment of their triumphant assignment as architects of economic reform for a newly independent Russia.

From that insider's perspective, he faults Gaidar and the others for failing to go far enough fast enough or to attend to politics and the building of an adequate political base. They paid, he argues, by running out of time very early. Most of their macroeconomic reform designs were cut short six months after they started.

Most of their mistakes, however, as Åslund judges matters, involve the things they did not do rather than those they did. He has no patience for those who argue that the Gaidar reform was too radical for Russia. In fighting inflation and creating a stable macroeconomic environment there is for him a single universe, and Russian politicians and contrarians, whatever their frustrations and shibboleths, cannot escape that fact. Those who have fought this line are not going to be persuaded by Åslund's book, but they, like the rest of us who are more agnostic, will profit greatly from his detailed, intelligent analysis of the massive economic problems that the Yeltsin regime has faced.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Remaking Russia: Voices from Within. EDITED BY HEYWARD ISHAM. Armonk: M. E. Sharpe, 1995, 330 pp. $54.95 (paper, $19.95).

Isham has brought together an interesting group and turned their essays into answers to three questions: "Who are we (Russians)?" "Where are we going?" And, "How do we get there?" They answer not as pedestrian analysts doing the job for an institute report or a scholarly anthology but as Russians speaking from the Russian soul: the great Russian academician and medievalist, Dmitri Ligachev, writing on the tragedy of Russian history; novelist Fazil Iskander, considering who the Russians are after having been Soviets; Arkadii Vaksberg, the distinguished lawyer and legal journalist, setting out the link between crime and politics; poet Andrei Voznesenkii on "Easter Eggs, Black Holes, and Heroes"; and many more. They did their writing in the weeks immediately after Yeltsin's violent confrontation with parliament in fall 1993, and therefore some of their immediate preoccupations are already dated, but not the general spirit, emotions, and most of all the insight they bring.

Starting Over in Eastern Europe: Entrepreneurship and Economic Renewal. BY SIMON JOHNSON AND GARY LOVEMAN. Boston: Harvard Business School Press, 1995, 256 pp. $27.95.

Johnson and Loveman are two business school professors who have made an in-depth study of the new and converted enterprises in Poland. The result is a fascinating and arresting look on the micro level at the impact of economic reform. They build their study around a series of specific case studies: Prochnik, a large privatized manufacturing facility producing men's and women's clothing, two state-owned shipyards, and a half dozen new privately organized companies in diverse areas. The arresting part is how limited, albeit important, has been the progress achieved through the privatization of existing plant and how central to the Polish success story have been new businesses. They recognize that eventually the transformation of the Polish economy and the continued advance of the new business sector will require some means around the value-destroying behemoths of the formerly centrally planned economy. But meanwhile their message to those elsewhere who are counting on privatization of state industry as the path to growth is to shift more of their hopes to entrepreneurs starting from scratch.

Russia/U.S.S.R./Russia: The Drive and Drift of a Superstate. BY MOSHE LEWIN. New York: The New Press, 1995, 368 pp. $30.00.

Lewin, a distinguished historian of the Soviet period, weighs in to the debate over the meaning of those years in the larger context of Russian history before and after. That is why "U.S.S.R." is sandwiched between two Russias in the title of the book, an amalgam of old and new essays. Those essays that deal with specific subjects—such as the civil war, the background to collectivization, and the early phases of industrialization—are fresh, instructive, and lucidly written. In the book's other parts, where Lewin, in his words, intends to set Rus-

To order any book reviewed or advertised in *Foreign Affairs,* call 1-800-255-2665.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

sia and the Soviet Union in "historical motion" to interpret the long sweep of history, problems begin to mount. The difficulty is not so much with the building blocks of his theory: the centrality of the struggle to develop the country, its society and economy, the impediments raised by its agrarian base, what the regime has done to society and to itself in the effort, and the alternating, sometimes simultaneous cycles of "rapid change" and "stagnation." Rather the deficiency is in its execution. Too often when the argument needs clarification and development, the author settles for a fragment of the idea or even a wave of the hand and turgid, affected writing.

Middle East

WILLIAM B. QUANDT

This Side of Peace: A Personal Account. BY HANAN ASHRAWI. New York: Simon & Schuster, 1995, 306 pp. $25.00.

The early rounds of Arab-Israeli peacemaking were followed by a flood of memoirs and studies, mostly from the Israeli and American angles. For many Americans, Hanan Ashrawi, as spokesperson for the Palestinian delegation, became the Palestinian voice that conveyed humanity and reason. Ashrawi has raised the curtain on what went on behind the scenes. It is a compelling, often depressing, story. PLO Chairman Yasir Arafat was a difficult taskmaster, sending mixed signals to his delegation, keeping many cards up his sleeve, and finally cutting the deal in Oslo behind the backs of most of his advisers. The Israelis come across as difficult partners in peace, but Ashrawi does not spend much time on them as individuals; she seems to take their intransigence for granted. It is the Americans who irritate her most, since they seem to promise things to lure the Palestinians into negotiations, then step to the sidelines and tell the Palestinians to go talk to the Israelis about substance. Still, she portrays former Secretary of State James Baker in a relatively positive light. He, at least, seemed to enjoy twisting both Israeli and Palestinian arms. Secretary of State Warren Christopher, by contrast, comes across as a bland and unconvincing intermediary. Along the way in this narrative, Ashrawi evokes her people, their hopes, her own frustrations as a woman in a patriarchal society, and the conflicts between her roles as public figure, intellectual, adviser to Arafat, and mother. In the end, she refused to join Arafat in the Palestinian National Authority and expressed strong reservations about the Gaza-Jericho agreement. Instead, she founded the Palestinian Independent Commission for Citizens' Rights. This is not so much a work that future historians will ponder, but it is an appealing and powerful personal statement from a person of integrity and insight.

Broken Covenant: American Foreign Policy and the Crisis Between the U.S. and Israel. BY MOSHE ARENS. New York: Simon & Schuster, 1995, 320 pp. $25.00.

The title of this memoir by Israel's former foreign and defense minister promises a harsh indictment of American policy. There is indeed plenty of criticism of the Bush-Baker team's

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

"interference" in Israeli politics via the withholding of unconditional loan guarantees in late 1991, but there is much more as well. Arens covers in revealing detail the early, unsuccessful efforts by Baker to get Mideast negotiations started in 1989. Then he deals with the Persian Gulf crisis of 1990-91 and concludes with the Madrid conference and its aftermath. Arens' political point of view colors his analysis, but he nonetheless provides fascinating vignettes of the diplomacy of the period. Some of his best sketches are of his fractious Likud colleagues. While he tends to blame Bush and Baker for Likud's defeat in 1992, his account shows that former Israeli Prime Minister Yitzhak Shamir and other Likud leaders made many mistakes of their own.

Khomeinism: Essays on the Islamic Republic. BY ERVAND ABRAHAMIAN. Berkeley: University of California Press, 1993, 188 pp. $45.00 (paper, $16.00).

A leading historian of modern Iran has crafted five excellent essays that together paint a convincing picture of Iran's recent development. Abrahamian begins by dismissing the notion that the Iranian revolution was rooted in fundamentalist Islam. On the contrary, Ayatollah Khomeini and his followers, by the time they mounted their challenge to the shah's regime, were using the language and political techniques of radical populism. This helps explain the attraction of a wide segment of the Iranian left to the Islamic revolution in its earliest phase. But Khomeini's populism was in part tactical. He had always maintained that private property should be respected, and he was very attentive to bazaar merchants. His was a middle-class revolution, which sought support among the downtrodden by promising to dispossess the wealthy aristocracy. Abrahamian, relying on original sources, traces Khomeini's intellectual trajectory from conservative mystic to outspoken radical and back to a more nuanced position between his more moderate and militant followers. Along the way he has wonderful insights into the uses and abuses of history, a chapter on the "paranoid style" in Iranian politics, and some concluding comments about the apparent triumph of the "moderates."

Inside the Arab World. BY MICHAEL FIELD. Cambridge: Harvard University Press, 1995, 439 pp. $27.50.

Journalists who work in the Arab world often seem to have a compulsion to write books about the region and its people. This survey by a journalist with the *Financial Times* is among the very best. His view is gloomy as he recounts the conflicts, corruption, and waste of oil money. At times he makes sweeping generalizations that come close to being patronizing and stereotypical. But there always seem to be important grains of truth in his arguments, which make the book important despite its somewhat inconsistent nature.

Jordan's Inter-Arab Relations: The Political Economy of Alliance Making. BY LAURIE A. BRAND. New York: Columbia University Press, 1995, 350 pp. $17.50.

One of America's leading Arabists has

To order any book reviewed or advertised in *Foreign Affairs,* fax 1-203-966-4329.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

written a first-rate book on Jordan and its ties to other Arab states. In doing so, she has also underscored the importance for Jordan of using foreign policy as an adjunct to its fiscal strategy of securing aid from abroad. To demonstrate the importance of such financial considerations in Jordan's foreign policy, Brand looks at relations with Saudi Arabia, Kuwait, Syria, Iraq, and Egypt. For those mystified by King Hussein's apparent support for Iraq in 1990, this book will go a considerable distance in providing an explanation.

Avenues of Participation: Family, Politics, and Networks in Urban Quarters of Cairo. BY DIANE SINGERMAN. Princeton: Princeton University Press, 1995, 335 pp. $39.50.

Anyone who has read the novels of Naguib Mahfouz knows that the popular quarters of Cairo hold a special fascination because of the rich mixture of family and neighborhood networks. Now a talented American political scientist has written about these same neighborhoods, after having spent time living there in the mid-1980s with an Egyptian family. The result is political anthropology of a high order. Singerman shows how family ties empower people, along with the ruses used to deal with bureaucrats and the state. Her picture of women black marketeers is especially revealing. As a social scientist, she is determined to challenge the stereotype of the passive urban poor, and she makes a largely successful case for seeing politics in other than elite terms. It remains an open question, however, how much attention the state will have to pay to the sentiments and maneuvers of people in these popular quarters, who are skillful at resisting government rules and regulations but find it difficult to amass the political and economic capital needed to influence politics at the national level.

The Struggle for Sovereignty: Relations Between Great Britain and Jordan, 1946-1951. BY RON PUNDIK. Cambridge: Blackwell, 1994, 363 pp. $64.95.

The author, most recently known for his part in starting the Oslo negotiations between Israel and the PLO, reveals here that he is also an accomplished historian. Pundik takes issue with the idea that Britain colluded with Israel and Jordan to ensure that the West Bank would be taken by King Abdallah ibn Hussein in 1948. Jordan's early history as an independent state is coming under increasing scholarly scrutiny, thanks to the availability of the British archival records. According to Pundik, it was more a case of Abdallah pushing forward and the British not resisting. Politics in these early years revolved around the king, British resident Alek Kirkbride, and Glubb Pasha of the Arab Legion. Abdallah used the British to try to further his regional ambitions, and with time the forces of nationalism weakened their role, as well as his own.

Feminists, Islam, and Nation: Gender and the Making of Modern Egypt. BY MARGOT BADRAN. Princeton: Princeton University Press, 1995, 352 pp. $25.00.

Most accounts of modern Egyptian history focus on and are written by men.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

This one is different—and welcome. It traces the development of Egyptian nationalist sentiment by concentrating on the emergence of Egyptian feminism, first with the rise of "feminist consciousness," then with women becoming actively involved in social activities, and finally with the creation of explicitly political feminist organizations. Many impressive Egyptian women, such as Huda Sharawi, contributed to the nationalist cause and sought to develop links to women's movements in other Arab countries as well. One of the ironies of more recent events, however, has been that Egypt, like other Arab countries, valued the role of women during the nationalist struggle but was quick to reestablish more traditional patriarchal patterns of rule once independence was achieved.

Come with Me from Lebanon: An American Family Odyssey. BY ANN ZWICKER KERR. Syracuse: Syracuse University Press, 1994, 322 pp. $28.95.

Many will remember the day in January 1984 when Malcolm Kerr, president of the American University of Beirut, was assassinated. Lebanon had been haunted by thousands of senseless killings over the previous decade, but this one hit home for many Americans who had known Kerr and respected his scholarship. Now his widow has written an evocative, moving memoir that begins with the assassination but moves on to portray Lebanon as she and Malcolm had known it, the cosmopolitan Beirut where they had met, and the rich family life that they had shared there. Along the way we learn as well of a remarkable, courageous woman.

The Partition of Palestine: Decision Crossroads in the Zionist Movement. BY ITZHAK GALNOOR. Albany: State University of New York Press, 1995, 379 pp. $21.95 (paper).

The question of the proper territorial expression of Zionism has a certain immediacy as Israelis wrestle with what to do with the West Bank. In this sophisticated study, an Israeli political scientist examines in depth the Zionist reactions to the 1937 Peel Commission proposal to partition Palestine. Galnoor finds that territory was not viewed as an end in itself, but rather as instrumental for achieving other values, and therefore susceptible to compromise.

Crisis in the Arabian Gulf: An Independent Iraqi View. BY OMAR ALI. Westport: Praeger, 1993, 168 pp. $49.95.

This is a curious, rambling view of the Persian Gulf War of 1990-91 written by an anti-Saddam Iraqi. While critical of Saddam and strong in his call for democracy in Iraq, the author also gives credence to what he repeatedly refers to as the "conspiracy theory" of how Iraq was lured into the war by wily Kuwaitis and Americans. He never quite says he believes the theory, but he spells it out in such detail that one is left with the impression that he does. This book conveys a point of view frequently found in the Middle East, but it does little to improve the understanding of what really happened and what should now be done.

To order any book reviewed or advertised in *Foreign Affairs,* call 1-800-255-2665.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Asia and the Pacific

DONALD ZAGORIA

The United States, Japan, and Asia. EDITED BY GERALD L. CURTIS. New York: W. W. Norton, 1994, 288 pp. $28.00 (paper, $9.95).

The Strategic Quadrangle: Russia, China, Japan, and the United States in East Asia. EDITED BY MICHAEL MANDELBAUM. New York: Council on Foreign Relations Press, 1995, 221 pp. $16.95 (paper).

The book edited by Curtis offers eight thoughtful essays, which focus on challenges to U.S. policy in the Pacific and stress the critical importance of U.S.-Japan relations. Particularly important is how the United States and Japan relate to China. Virtually all the contributors agree with Tom McNaugher's conclusion that "the central strategic challenge in East Asia" is coaxing China into a constructive, cooperative regional and global role. Both Akira Iriye and Michel Oksenberg provide the historical background demonstrating the dangers of the United States and Japan going separate ways in dealing with China, as they did in the 1930s. As Oksenberg points out, however, the United States and Japan will have to deal with a China that is "culturally confident but socially undisciplined, economically vibrant but politically messy, huge in size but territorially amorphous."

Despite these difficulties, there is room for cautious optimism. Both the United States and Japan are aware that China will be a difficult partner to deal with in world affairs, and they are both conscious of the need for consultation, dialogue, and a mixture of realism, patience, and firmness.

The book edited by Mandelbaum explores some of the same ground but concentrates on the interactions among the four major powers in the region—Russia, China, Japan, and the United States. The essays in this volume are also of uniformly high quality. Richard Solomon offers a concluding chapter that aptly sums up the situation: "The most promising future one can anticipate for the coming period in East Asia is that of a loose balance of power among the states of the Strategic Quadrangle."

Inherited Rivalry: Conflict across the Taiwan Straits. EDITED BY TUN-JEN CHENG, CHÍ HUANG, AND SAMUEL S. G. WU. Boulder: Lynne Rienner, 1995, 277 pp. $42.00 (paper, $27.00).

The deficiencies of this volume highlight the need for a balanced and sober account of recent relations between the People's Republic of China and Taiwan. First, there is a pretentious emphasis on the part of the editors and some of the contributors on exploring the Taiwan-PRC relationship in order to make theoretical contributions to the study of international politics. The result is a volume whose reach far exceeds its grasp. Second, by placing their emphasis on theory, the editors miss a good opportunity to assess the policy options for the PRC, Taiwan, and the United States. Finally, the volume has too much of a pro-Taiwan slant.

Despite these problems, there are a few informative essays. John Fuh-sheng Hsieh, a political science professor in

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Taiwan, contributes a cogent essay on the people involved in the making of Taiwan's mainland policy. He shows a continuum with those who seek reunification at one end and those who seek independence at the other. But the vital middle ground is held by the mainstream faction of the ruling party, the Nationalist Party (KMT), led by President Lee Teng-hui. This group favors opening up to the mainland but only at a slow pace. Parris Chang has also written an informative essay on Taiwan's "flexible diplomacy" toward the PRC that has now led to a substantial growth of indirect trade and investment on the mainland and a lifting of the travel ban. But Chang agrees with Hsieh that Taiwan's opening to the PRC will be very cautious for at least two reasons. KMT officials are fearful of undermining Taiwan's stability and security. They see direct trade and direct investments as Taiwan's bargaining chips to secure concessions.

Explaining and Influencing Chinese Arms Transfers. BY KARL W. EIKENBERRY. Washington: National Defense University, 1995, 69 pp.

This is a short but well-researched essay on Chinese arms sales by a U.S. Army colonel now working in the Department of Defense who is also a China specialist. It is an important contribution to a subject that has the potential to exacerbate U.S.-China relations.

The author's conclusions are not overly optimistic. First, commensurate with its expanding regional security interests, China will increasingly attempt to become a major arms supplier to Asian states. Second, Third World demand for Chinese arms may gradually rise as U.S. arms transfer policy is perceived as unreliable and conditional upon American domestic politics. Third, China, which will be a net importer of oil by the year 2000, might decide to guarantee favorable Middle East oil contracts with weapons exports. Fourth, great power aspirations and the dynamics of the PRC defense industries will encourage continued aggressive sales abroad.

On the brighter side, China has in the past shown reluctance to be seen as violating international arms control rules, and when the payoff for moderation is sufficiently great, Beijing has shown a willingness to appear responsive to concerted international calls to restrain arms traffic.

The Political Economy of Korea–United States Cooperation. EDITED BY C. FRED BERGSTEN AND IL SAKONG. Washington: Institute for International Economics, 1995, 109 pp. $15.00 (paper).

This useful volume is the first product of the Korea–United States 21st Century Council, a forum launched in 1994 to bring together top officials, private sector leaders, and policy-oriented researchers. One of the prominent themes is the extreme displeasure of the U.S. business community as regards the South Korean investment climate. As Lawrence B. Krause puts it, although many American firms have formed partnerships with Korean firms, "a significant number have been unsatisfac-

To order any book reviewed or advertised in *Foreign Affairs*, fax 1-203-966-4329.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

tory for the American side." Difficulties have included inadequate protection of intellectual property rights, restricted access to the Korean market, and excessive government interference with business that works disproportionately against foreign firms.

Robert Zoellick, a former Bush administration official, cites customs rules and product standards that are used to thwart importers, complains about anti-import campaigns and the caricaturing of foreign trade officials, and warns that these actions "paint an international image of Korea that is, to be frank, terrible."

According to the editors, the response to these charges from the Korean participants was mixed. Some readily acknowledged that the problem remains serious. Others were resentful, suggesting that only American investors have difficulties in Korea while those from Europe and Japan have been doing well. Despite these difficulties, the conference participants were mostly optimistic about the prospects for improving the Korean investment climate, given the current South Korean administration's commitment to reform.

The New Geopolitics of Central Asia and Its Borderlands. EDITED BY ALI BANUAZIZI AND MYRON WEINER. Bloomington: Indiana University Press, 1995, 284 pp. $15.95 (paper).

The New States of Central Asia and Their Neighbors. BY PETER FERDINAND. New York: Council on Foreign Relations Press, 1994, 120 pp. $14.95 (paper).

Islam and Politics in Central Asia. BY MEHRDAD HAGHAYEGHI. New York: St. Martin's Press, 1995, 250 pp. $45.00.

These three volumes are part of a new growth industry—writing about the newly independent states of Central Asia since the collapse of the Soviet Union. By far the most intellectually stimulating book to emerge on this topic in the past year is the one edited by Banuazizi and Weiner. The editors explore the idea that the breakup of empires leads to civil wars and regional conflicts among successor states. There are plenty of historical examples. The breakup of the Ottoman Empire was accompanied by the Balkan wars. The dissolution of the Austro-Hungarian Hapsburg empire triggered conflicts in both the Balkans and Central Europe. After the Second World War, the withdrawal of the British, French, Dutch, Americans, and Portuguese from their overseas colonies left unstable states and regional conflicts.

Among other insightful essays, Boris Rumer, a fellow at the Russian Research Center at Harvard University, cogently explores the relations between Russia and the new Central Asian states. Sabri Sayari, executive director of the Institute of Turkish Studies in Washington, writes about Turkey's role in the region. An informative essay by Martha Brill Olcott on the five elite groups in Central Asia today: the former functionaries of the Communist Party; the functionaries of the military-industrial complex and Russian elite more generally; the intellectuals; the religious establishment; and the participants in the "shadow economy." And there is a good concluding chapter by Nancy Lubin on

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

the challenges Central Asia holds for the United States.

The Ferdinand volume is a solid collection of essays on the five new Central Asian republics sponsored by the Royal Institute of International Affairs at Chatham House in London. The book by Haghayeghi focuses on the Islamic revival in Central Asia, which it concludes is moderate and not anti-Western. But it warns that both Uzbekistan and Tajikistan could yet experience political turmoil with religious dimensions because of the governments' harsh treatment of Islamic forces.

Africa

GAIL GERHART

Economic Change and Political Liberalization in Sub-Saharan Africa. EDITED BY JENNIFER A. WIDNER. Baltimore: The Johns Hopkins University Press, 1994, 307 pp. $45.00 (paper, $16.95).

This collection of papers from a 1992 Harvard conference poses one central question: how has political liberalization in Africa been affected by economic decline and externally imposed economic reform? Most would agree that the collapse of single-party systems in the space of a few years has been the most important phenomenon in Africa since the end of colonialism, and that economic pressures have been instrumental in this process. Here the consensus ends, however, and the analytical minefield begins. The bad news is that nobody has a persuasive explanation for the political economy of this continent-wide change; the good news is that nobody claims to.

Hence this is a modest book, full of tentative but fertile hypotheses and the kind of intellectual groping that marks what Ernest Wilson in a concluding piece on research agendas calls the "paradigmatic interregnum" of current political science. Robert Bates takes a promising tack with a "human capital" analysis, arguing that constituencies for change form around "embattled professionals" who have invested in the acquisition of skills that they cannot transfer to foreign countries through emigration. Other authors examine the political consequences of the decline of rent-seeking opportunities for public officials caught in the squeeze of structural adjustment. Country studies of Benin, Cameroon, Zambia, Ghana, Tanzania, Kenya, and the Ivory Coast bring home the hazards of generalizing about Africa and suggest the importance of collecting much more comparative data before imposing theories that purport to explain cause-and-effect relationships between economics and politics.

The New Is Not Yet Born: Conflict Resolution in Southern Africa. BY THOMAS OHLSON, STEPHEN JOHN STEDMAN, AND ROBERT DAVIES. Washington: Brookings Institution, 1994, 322 pp. $34.95 (paper, $14.95).

This book presents no new research but ably draws together a wealth of recent information on politics, war, and development in Southern Africa. The authors

To order any book reviewed or advertised in *Foreign Affairs,* call 1-800-255-2665.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

offer a clear and concise analysis of the factors obstructing and abetting peace and regional cooperation, and they assess (at mid-1993) the ways in which South Africa's transition will continue to affect its neighbors. They argue that the resolution of future intra- and interstate conflicts will depend on how well the governments of the region build permanent institutions for dialogue.

The Heritage of Islam: Women, Religion, and Politics in West Africa.
BY BARBARA CALLAWAY AND LUCY CREEVEY. Boulder: Lynne Rienner, 1994, 221 pp. $40.00 (paper, $19.95).

Does religion shape society less or more than society shapes it? Less, according to this solidly researched study of the comparative status of Muslim women in northern Nigeria and Senegal. Historically and geographically less exposed to Western influences than Senegal, northern Nigeria today secludes women and bars them from public life, whereas Senegalese social and religious norms are less discriminatory. In Senegal, Muslim women have achieved at least a toehold in the modern sector, and a feminist agenda is supported by a nascent women's movement. By contrast, in northern Nigeria (where women were denied the vote until 1976 and today less than one percent attend universities today), patriarchy and social conservatism are so pervasive that women's only hope of advancement, the authors argue, lies in promoting gender equality as a matter of reform within Islamic law, or *sharia*. Muslim fundamentalists, who use different interpretations of *sharia* to justify their opposition to equality, are striving in both countries to roll back even the minor gains of Muslim women; But here again, the authors predict, the greater openness of Senegal to modern economic and social influences (as well as the buffer against fundamentalism provided by Muslim brotherhoods) make Senegal less likely than northern Nigeria to be swept by fundamentalist reaction.

Africa's Wars and Prospects for Peace.
BY RAYMOND W. COPSON. Armonk: M. E. Sharpe, 1994, 211 pp. $50.00 (paper, $19.95).

Anyone who needs to sort quickly through Africa's catalog of contemporary conflicts, from Western Sahara to Mozambique to the Horn, will welcome this concise yet comprehensive update (to late 1993). Organized to supplement basic international relations texts, there are chapters on the domestic and external causes of African wars, costs and consequences, changing contexts in the post–Cold War world, and the prospects for positive international intervention. The commentary is well informed, and there are helpful maps and tables.

South Africa: Twelve Perspectives on the Transition. EDITED BY HELEN A. KITCHEN AND J. COLEMAN KITCHEN. Westport: Praeger, 1994, 203 pp. $55.00 (paper, $18.95).

Most of the pieces in this volume are by acknowledged experts, and all originally appeared as issues of *CSIS Africa Notes* published by the Washington-based Center for Strategic and International Studies. Dating from January 1988 to January 1994, they address a range of

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

topics including shifts in South Africa's military and nuclear policies, the evolving politics of the African National Congress, and the white governments that ruled before April 1994. A chapter written in mid-1992 compares democratization efforts in Russia and South Africa. Reading such recent but outdated analyses is rather like nibbling at the remains of yesterday's salad, but researchers in years to come will find the collection a useful historical resource.

International Trade: Issues Regarding Imposition of an Oil Embargo Against Nigeria. U.S. GENERAL ACCOUNTING OFFICE. Washington: U.S. General Accounting Office, November 1994, 14 pp.

Since 96 percent of Nigeria's foreign exchange earnings derive from oil exports, could its autocratic military regime be brought down by an international embargo? GAO researchers report that a unilateral American boycott would be ineffective, and that there is insufficient international support for multilateral action. Moreover, the fragmentation and volatility of Nigeria's political opposition would make the outcome of even a successful multilateral embargo highly uncertain.

The Latin America Program

of the Council on Foreign Relations is proud to collaborate with *Foreign Affairs* in the unprecedented conference, "Latin America: The Next Generation," on June 22-23.

Supported by major grants from the Tinker Foundation, Inc. and the Andrew W. Mellon Foundation, and directed by Kenneth Maxwell, Senior Fellow for Latin America, the program has three major objectives:

(1) to involve in its activities the upcoming generation of leaders throughout the hemisphere, and to encourage active minority and Latin American participation in its studies and publishing activities;

(2) to stimulate collaboration between U.S. and Latin American institutions and assist in the development of foreign affairs expertise in the hemisphere;

(3) to respond rapidly with analysis of crisis situations, and to provide an ongoing forum for confidential dialogue on contentious U.S. foreign policy issues.

Other recent activities of the Latin America Program include a day-long seminar with Brazilian President Fernando Henrique Cardoso and his Finance, Justice, and Foreign Ministers; a day-long symposium on Venezuela; a collaborative program with the Trinational North American Institute to examine the North American agenda in the aftermath of NAFTA; and working groups examining U.S. policy toward Haiti and toward Cuba.

For more information, please write: The Latin America Program, Council on Foreign Relations, 58 East 68th Street, New York, NY 10021.

To order any book reviewed or advertised in *Foreign Affairs*, fax 1-203-966-4329.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Response

Underrating Preventive Diplomacy

Michael S. Lund

The malaise of U.S. foreign policy is such that academic gadflies now debunk any proposal that sounds suspiciously positive. This knee-jerk negativism infects Stephen John Stedman's superficial critique of "preventive diplomacy," an approach that finds early international responses to avoid potential crises easier than more belated interventions ("Alchemy for a New World Order: Overselling 'Preventive Diplomacy,'" May/June 1995). Stedman charges that proponents of preventive diplomacy oversell its potential and naive policymakers are taking the bait. He argues that problems of prescience, policy prescription, and political support mean the "intractable" conflicts "endemic" to the post–Cold War period cannot be averted unless major resources are invested in "situations where risks are high and success is in doubt." Preventive diplomacy, he contends, merely means that "one founders early in a crisis instead of later." But Stedman caricatures what proponents of preventive diplomacy are saying and exaggerates the extent to which governments are adopting the methods of preventive diplomacy. His selective analysis of worst-case scenarios leads him to misunderstand and thus overestimate the obstacles to implementing it.

HYPE AND HYPOTHESIS

Stedman conjures up a nightmare in which zealous purveyors of preventive diplomacy mesmerize unwitting policymakers into buying a discount antidote for local quagmires that has little potency and hidden side effects. But responsible proponents of preventive diplomacy obviously do not presume "easy solutions to such disasters can be found," advise key players to "do something, anything!" in dealing with incipient conflicts, tout preventive diplomacy as a cure-all with no cost or risk, or assume no value judgments need be made. Stedman not only distorts the views being expressed, he insults policy-

MICHAEL S. LUND, a Senior Scholar at the United States Institute of Peace, is researching the requisites of effective post–Cold War preventive diplomacy.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

makers by implying they would fall for such policy nostrums.

Stedman has confused advocacy of a policy slogan with adoption of the substance behind it. Just because "preventive diplomacy" is an inside-the-Beltway buzzword of foreign policy does not mean that early warning and conflict prevention have become official doctrine or standard operating procedure.

WHAT PREVENTIVE DIPLOMACY MEANS

The term "preventive diplomacy" refers to actions or institutions that are used to keep the political disputes that arise between or within nations from escalating into armed force. These efforts are needed when and where existing international relations or national politics appear unable to manage tensions without violence erupting. They come into play before a point of confrontation, sustained violence, or military action is reached. In many places and on many issues, preventive diplomacy is already practiced, although not always under that label. Recent examples include the U.S. negotiations with Russia and Ukraine over dismantling their nuclear weapons, U.S. and European pressure on Zaire's President Mobutu to step down, and the Middle East multi-lateral talks over water resource issues.

Stedman claims that while we know the societal conditions that increase the chances of war or state collapse (e.g., poverty, environmental degradation, ethnic and economic divisions, and repressive and corrupt regimes, and so on), murky individual and group decisions make it impossible to predict exactly when and where violence will erupt. But just because political forecasting is not a hard science does not make it a crapshoot. Sudden covert acts, such as a military coup or a terrorist bombing, are very difficult to forecast. But early-warning specialists are making progress in pinning down the probable precipitants of more gradual, public phenomena such as ethnic warfare, genocide, and the breakdown of states. Demonstrations, repressive measures, hate rhetoric, arms buildups, separatist communities forming parallel institutions: these signs one ignores at one's peril.

In Estonia, for example, restrictive citizenship and language laws adopted in 1993 by the newly independent government were perceived by resident Russian speakers—then a third of Estonia's population—as discriminatory and threatening. In view of this group's powerful patron next door, the High Commissioner on National Minorities of the Conference on Security and Cooperation in Europe (CSCE) and other governmental and private actors acted preventively to reduce tensions, then and there.

WHAT TO DO

Stedman points out the difficulty of knowing what actions to take. But preventive strategy is not the stab in the dark that he implies. His blanket view that post–Cold War ethnic tensions uniformly lead to intractable conflicts is based on a few recent instances where efforts were made to avoid violence yet war ensued: Croatia, Bosnia, Somalia, and Rwanda. One should look at the numerous ethnic and national disputes judged to be potentially destabilizing and violent that were managed in relative peace: Russia and Ukraine over Crimea, the breakup of the Czech and Slovak Republics, Congo's transition from

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

autocracy, Zambia's nonviolent shift toward democracy, and Hungary's moderated relations with its neighbors, among others. Such success stories are virtually ignored in the press, and apparently by academics, too.

Stedman imagines only two policy options, "little more than talking" or armed force, whereas governments and nongovernmental organizations (NGOs) have used a gamut of measures to influence parties in disputes. Such instruments include unofficial ("track two") or grass-roots dialogues, human rights and other observer missions, targeted economic aid, confidence-building exercises, membership in international organizations, peacekeeping missions, democracy-building, official good offices or mediation, sanctions, big-power pressures, war crimes tribunals, and others. A mix is needed to allay mistrust, butress the local forces and institutions of accommodation, keep negotiation channels open, control imminent violence, propose settlements, and so on.

Third-party involvement in brewing disputes has certain advantages. For example, the preservation of Macedonia as a fragile new multiethnic Balkan state may be explained in part by the U.N. preventive peacekeeping force, the CSCE observer mission, U.S. warnings to Serbian President Slobodan Milošević, NGO dialogues, and other activities that have helped so far to keep external pressures, internal tensions, and local episodes of violence from escalating. Overt, direct U.S. involvement in such initiatives is not always necessary, nor even desirable, but quiet U.S. backing of the efforts of regional bodies like the CSCE, the Organizaton of African Unity, and private entities has been important. Overt or tacit U.S. backing of a party in a dispute can intensify a conflict, such as when the United States initially indicated it would tolerate Russia's recent handling of Chechnya or when it remained silent after the Algerian military canceled elections in 1992. Even vague messages promoting valid general principles such as territorial integrity or democratic rights can be interpreted as partiality and thus encourage one of the parties to use violence or armed coercion to advance its aims. What seems paramount is that the demeanor and actions of the United States can weigh heavily on behalf of a process of peaceful resolution of disputes.

ADDING UP THE TAB

One can be skeptical, with Stedman, that preventive action would always save more lives, cost less, and obviate the need for humanitarian intervention. But one need not follow him to the opposite extreme, wherein the financial and political cost of preventing such crises is prohibitive. The logic of conflict escalation is prima facie support for the view that less violent and short-lived disputes offer much greater opportunities for peaceful management by mediators. Issues in those types of disputes tend to be simple and singular rather than complex and multiple, disputants are less rigidly polarized and politically mobilized, fatalities and thus passions are low, and communications and common institutions may still exist. Other states or external groups are less likely to have joined one side or another and may even share an interest in keeping local disputes from escalating.

The calculus of deciding whether preventive diplomacy is worth the price must

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

include the costs of alternatives such as mid-conflict intervention and noninvolvement. That includes not only lives lost and injuries but also the price of humanitarian relief, refugee aid, and peacekeeping, if done. It should also include the cost of losses in health, education, infrastructure, trade and investment opportunities, and natural resources. Bosnia, Chechnya, Chiapas, and Turkey's conflict with the Kurds are reminders of the huge political costs that nasty little wars that seem remote and minor at first can nevertheless wreak on U.S. foreign policy goals.

THE WILL AND THE WAY

Stedman thinks that the public will not endorse preventive diplomacy's risks and costs, but the considerations described above put the overstated issue of "political will" in a different light. Preventive efforts are often much less challenging and more prosaic than cases in which a U.S. president must try to rouse the country to send American boys into possible danger. For example, the dispatch of 500 American soldiers to join the U.N. peacekeeping mission in Macedonia was hardly noticed. Preventive efforts may entail nothing more than making adjustments in regulations and procedures developed by the vertically structured, Cold War–era international bureaucracies of the United States. Ambassadors and U.S. field-level staffs may need revised job descriptions and performance criteria, for example, to encourage work with their counterparts in host governments, regional organizations, NGOs, and other countries in more proactive responses to the first local signs of potential crises. Effective preventive diplomacy means incipient conflicts would not even reach the desks of the National Security Council, the State Department's upper echelons, and the Pentagon.

THE THIRD WAY

Rather than ignore many potential post–Cold War crises and threats out of some unexamined theory of their imagined "intractability," U.S. and other policymakers might prudently assign a few staff members at various agency levels to track emerging post–Cold War political disputes around the world and to develop policy options for addressing them sooner rather than later. This would enable U.S. decision-makers to better assess whether the United States should act, when, with what means, and with whom. As successes mount, the burden of proof will shift to those who would still defend the notion that current wait-and-see policies and practices are in the U.S. national interest. At any rate, the stakes in these potential crises seem too high to approach them with cavalier analyses of a few frustrating experiences.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Letters to the Editor

Roger Hilsman & Yuen Foong Khong on McNamara; Rita Hauser, Lloyd Cutler, Wendy Luers, and others

McNAMARA'S WAR

To the Editor:

In his new book, *In Retrospect: The Tragedy and Lessons of Vietnam,* former Defense Secretary Robert S. McNamara has twisted the truth, falsely accused others, and soiled the historical record to ease his own guilt (George C. Herring, "The Wrong Kind of Loyalty," May/June 1995).

The first reason McNamara cites for the U.S. failure in Vietnam is a lack of expert knowledge. In the Cuban missile crisis, he reminds us, the United States had Chip Bohlen and Tommy Thompson, two senior Foreign Service officers who had spent their lives working on the Soviet Union. But when it came to China and Vietnam, McNamara asserts, it had no such experts.

In fact, however, the State Department had several. Among the China experts was Alan Whiting (one of the top half-dozen China experts in the United States), Edward Rice (a career Foreign Service officer who had spent his whole life in China), and Marshall Green (a former consul general in Hong Kong who had been specifically in charge of watching China). The Vietnam experts included Paul Kattenberg, a Yale Ph.D. specializing in Southeast Asia and Vietnam, and Louis Sarris, the long-serving desk officer for Vietnam in the State Department's Bureau of Intelligence and Research. The problem was not that McNamara got no expert advice, as he now claims, but that he would not listen to it.

From the beginning of the Kennedy administration, these experts piled up memo after memo. They were consistently pessimistic about winning the war. The few memos that considered escalation—either by bombing or by introducing U.S. troops—concluded that neither action would change the outcome unless the United States invaded and occupied North Vietnam. They also concluded that if the United States did invade North Vietnam, China would intervene. When I was head of the State Department's Intelligence Bureau, we sent McNamara every one of these memos. My successor, Thomas L. Hughes, continued the practice. All of the reasons that McNamara now gives for why the United States should not have made Vietnam an American war were repeated to him again and again—not only by the experts and their memos but also by Robert F. Kennedy, W. Averell Harriman, George Ball, and me.

The second cause for the U.S. failure, according to McNamara, was that while he and other high officials were out of town, "several of the officials we had left behind" saw an opportunity and "set in

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

motion a military coup, which I believe was one of the truly pivotal decisions concerning Vietnam made during the Kennedy and Johnson administrations."

The officials McNamara accuses are Harriman, Ball, Henry Cabot Lodge, Michael V. Forrestal, and me. The cause of his accusation was our efforts to shape a response to information that senior Vietnamese generals, fearful of plots against them, were contemplating a coup against President Ngo Dinh Diem and his brother Ngo Dinh Nhu. McNamara does not mention that on August 26, 1963, at a National Security Council meeting, President Kennedy presented three options: one, go with our original cable, which did not commit the United States to much of anything but did instruct Lodge, the U.S. ambassador to Saigon, to inform Diem of the generals' fears and urge the appointment of Nhu as South Vietnam's ambassador to Paris to get him out of the country; two, go with Lodge's counter-recommendation not to see Diem for fear of jeopardizing the generals but also tell the generals we would back any new government that deserved our backing; or three, send no cable at all. The president then went around the room and asked each person—including McNamara—which cable he preferred. Everyone—including McNamara—voted for number two, Lodge's option, even though it obviously did more to encourage a coup than the option of having Lodge see Diem.

As it happened, one of the Vietnamese generals balked, and they decided not to try a coup. But McNamara fails to mention not only the fact that he signed the final cable but also that the coup never happened. The coup that did happen, on November 1, involving some of the same generals but not others, was a complete surprise to the U.S. government.

McNamara also never mentions that Harriman, Lodge, Forrestal, and I were opposed to either bombing North Vietnam or sending American troops rather than just advisers. We were, in other words, doves. It is no accident that the only dove that McNamara has a good word for—or even acknowledges was a dove—is George Ball. Ball was also the only dove that President Johnson kept on after Kennedy's assassination, and L.B.J. used Ball shamelessly to try to show that he had listened to the doves' arguments against deeper involvement.

McNamara does conclude that Kennedy would not have made Vietnam an American war. But Kennedy's view was much stronger than McNamara suggests. Kennedy told me, as his action officer on Vietnam, over and over again that my job was to keep American involvement at a minimum so that we could withdraw as soon as the opportunity presented itself.

McNamara's first reaction to every disagreement on Vietnam was to insist on going to Vietnam to "see for himself." He would go, talk to the same people who were writing the cables, come back, and endorse our original view. In the case of making Vietnam an American war, however, it took him two years to come around—from the time of the 1965 bombing, of which he was the principal architect, until 1967, when he told L.B.J. of his doubts about both the bombing and the war. To get McNamara out of the way, L.B.J. promoted him to the World Bank as a bribe to keep quiet. He spent many happy years there while the

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

casualties in Vietnam doubled.

L.B.J. replaced McNamara with a trusted friend and confirmed hawk, Clark Clifford. Within a few months, Clifford saw that the war could not be won. But instead of being content with merely telling L.B.J. his opinion, as McNamara and Ball had, Clifford proceeded to organize opposition inside the U.S. government and forced L.B.J. to go to Paris to negotiate a peace. America's misfortune was then compounded by the election of Richard Nixon, who, with the help of Henry Kissinger, found a way to prolong the war and double its casualties without changing the outcome in any other way.

ROGER HILSMAN

Professor Emeritus of Government and International Politics, Columbia University, and former Assistant Secretary of State for Far Eastern Affairs

To the Editor:

Robert S. McNamara is not asking for forgiveness or charity. The human costs of the advice that McNamara and his colleagues gave President Johnson will, to borrow a phrase from General Matthew Ridgway, be part of the ledger when they account for their actions with their Maker. (Ridgway said that when his day of reckoning came, he would be most proud of having advised President Eisenhower against intervening in Vietnam in 1954.) In that tally, McNamara's coolness during the Cuban missile crisis, his stint at the World Bank, and his efforts to mitigate nuclear danger should appear on the plus side. So should *In Retrospect.*

Since his disillusionment with the war, McNamara has shown serious interest in understanding how it came about in the hope of avoiding such mistakes in the future. In June 1967, he ordered the compilation of what subsequently became the Pentagon Papers. Leslie H. Gelb, the director of the study task force, has written that McNamara's only rule was that the study be "encyclopedic and objective." Twenty-five years later, McNamara has provided his own study. It might be less encyclopedic and objective than many would like, but he still ends up indicting himself and his colleagues.

The messenger is also an architect of the war waged 40 years ago. Veterans, parents of those who gave their lives, and relatives of those missing in action have every right to be furious when they are now told that the war was a mistake. But the alternative to *In Retrospect* is the continued silence of the Vietnam decision-makers, confining the analyses and judgments to historians and political scientists dissecting the war with their students. At best, that is a minute fraction of American society. Speaking the truth, as McNamara now understands it, and sharing it with the American public is better than taking it to one's grave.

To be sure, McNamara could and should have spoken out in March 1968, after he had successfully fought General Westmoreland's request after the Tet offensive for an additional 200,000 troops. But by then, everyone knew that the Johnson administration was moving to wind down the war—as well as itself. A president who vowed to achieve "peace with honor" was elected in 1968. It is unclear how much impact McNamara would have had even if he had come out against Nixon and Kissinger's strategy of "extrication," which cost another 19,000 American lives.

McNamara is willing to discuss Vietnam now because he sees an urgent need

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

for us to learn its lessons. His faith in our ability to do so is impressive, but it is difficult for policymakers to learn from history. McNamara, his colleagues, and especially their boss were misled by the lessons of the 1930s and 1950s in a way that influenced them to intervene and condemned them to defeat. McNamara writes about failing to ask the right questions and critically analyze assumptions. His colleague George Ball did all that and more in 1965. In memo after memo, Ball critiqued the assumptions and parallels that his fellows took for granted. None of them, with the possible exception of Johnson, took him seriously. As David Halberstam has argued, the intellectual arrogance of "the best and the brightest" hampered their critical acumen.

In Retrospect is McNamara's second installment in his attempt to understand how America became involved in Vietnam and why it lost. It takes us one step beyond the first installment, the Pentagon Papers—no more, no less.

YUEN FOONG KHONG

John G. Winant University Lecturer in American Foreign Policy, Oxford University

CLAUSEWITZ, BUT NO CIGAR

To the Editor:

Edward N. Luttwak's appeal to model U.S. military strategy on Roman doctrine ignores several practical problems ("Toward Post-Heroic Warfare," May/June 1995). Put simply, the American military cannot adopt Roman strategy because American military personnel are radically different from Roman or eighteenth-century soldiers. In the era of the all-volunteer military, U.S. soldiers, sailors, and airmen reflect the civilian world from which they come. They are married, have children, own homes, and generally do not expect to go to war unless vital U.S. interests are threatened. They cannot be sent overseas for years at a time to fight for poorly defined causes, even if casualties are light.

Siege warfare, whether in the form of crippling air strikes or strangling blockades, is not without negative moral consequences. Both strategies can cause great suffering for innocent civilians, especially the elderly and the very young. Will Americans seeing pathetic pictures of dying children credit Luttwak's doctrine with increasing the United States' "moral economy"? A perfunctory paragraph citing unquantified economic benefits and unquantifiable moral economy is not reason enough for me to abandon my family for years of siege warfare against some modern-day Masada.

MICHAEL D. BURNES

Major, U.S. Air Force, and Assistant Professor of Aerospace Science, University of New Mexico

NOT DEAD YET

To the Editor:

To be sure, the Oslo accord was a flawed and incomplete agreement, but it held out the promise of a smooth transition to Palestinian autonomy and elections in the West Bank and Gaza Strip if the confidence-building measures on which it was premised had been even moderately achieved. That they have not is the result of serious errors of implementation by all concerned parties. Amos Perlmutter, however, chooses not to focus on these errors and instead tries to argue that the Oslo approach was fatally flawed *ab initio* ("The Israel-PLO Accord Is Dead," May/June 1995).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Perlmutter asserts that the Israelis, frustrated by the "grindingly slow" pace of their 1991-92 talks with the Palestinian negotiating team in Washington, made a decisive mistake by leaping at the 1993 Norwegian back channel to the "all-but-moribund" Palestine Liberation Organization. He maintains that the leaders of the intifada and not the PLO in Tunis were the correct counterparts and that Israel should have continued to negotiate with them in Washington, arguing that this approach would have yielded a stable arrangement over time.

This prospect, however, was never in the cards. The Palestinian negotiators in Washington were all from Gaza and the West Bank only because Yitzhak Shamir, then Israel's prime minister, would not countenance any Palestinians from outside the occupied territories, "inside" Palestinians with known PLO connections, or Palestinian residents of Jerusalem. Able as such people as Faisal al-Husseini, Hanan Ashrawi, and Haidar Abd al-Shafi were, none had any authority whatsoever to negotiate independently of instructions from the PLO in Tunis. As Israeli Foreign Minister Shimon Peres rightly deduced, and as Israeli Prime Minister Yitzhak Rabin reluctantly accepted, there was no other address for the Palestinians but Tunis. Israeli acceptance of the PLO was a necessary prerequisite for serious negotiations with the Palestinians. There were no other possible partners.

The errors to date come not from the makeup of the negotiating team but from a failure to implement the accords according to their intent and proceed in good faith when problems arose. The resultant lack of any concrete change for the better permitted Hamas-affiliated Palestinians to mount opposition to the Oslo accord, punctuated by deadly terrorist attacks and unproductive Israeli responses such as the periodic sealing off of Gaza.

The Oslo accord is in trouble, but it is hardly dead. A sense of urgency and a solid American push of both parties toward the essential compromises can yet produce the hoped-for results of the great Israel-PLO breakthrough.

RITA E. HAUSER
President, The Hauser Foundation

To the Editor:

Amos Perlmutter declares the Oslo process dead, then—having grabbed our attention as a good writer should—admits it is only ailing. The latter is closer to the mark, unlike the author's analysis of what went wrong. To cite two examples: the "new generation" of Palestinians from the Washington talks were always al-Fatah surrogates with no constituency of their own, so it is feckless to argue that Peres should have preferred dealing with them; and the "non-terrorist" Hamas representatives Perlmutter thinks PLO Chairman Yasir Arafat should have co-opted to broaden his base are as illusory as the "non-PLO Palestinians" we wasted so many years trying to find.

Still, the primary weakness of Perlmutter's analysis is that he omits the most pertinent causes for Oslo's malaise: Rabin's loss of nerve, his bumbling efforts to pacify Israel's right wing, and the passivity of the United States, which has been reduced to wheedling impotence by a combination of Likud lobbying in Washington and presidential indifference. If Oslo fails, it will not be just because of Arafat's character flaws but because the

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

ADVERTISEMENT

The Truth About Islam

Islam means "submission to the Will of God." In its ethical sense Islam signifies "striving after the ideal." A Muslim is one who submits to the Will of God. "Islam" and "Muslim" derive from the same word as the Arabic for "peace." The traditional Muslim greeting is "Peace be unto you."

Islam offers hope for salvation to the righteous and God-fearing of all religions. Muslims believe in the Divine Revelations of many prophets including Abraham, Moses, Jesus, Muhammad; but do not believe that God (Allah) assumed human form. The Quran, Muslims believe, is God's Word and Final Revelation to The Prophet Muhammad. Revealed over a period of twenty-three years, The Quran was compiled and distributed to distant lands within twenty-five years of The Prophet's death in 632 A.D. This is the only version recognized as authoritative.

Comprising laws, moral precepts, and narratives, The Quran's timeless text remains an inspiration and guide for more than one fifth of humanity. Together with The Quran, the epitome of Classical Arabic, Muslims lives are guided by the examples and sayings of The Prophet. There are more than one half million of these sayings. Those sayings for which there is an unbroken chain of reliable narrators are classified as authentic. Some examples:

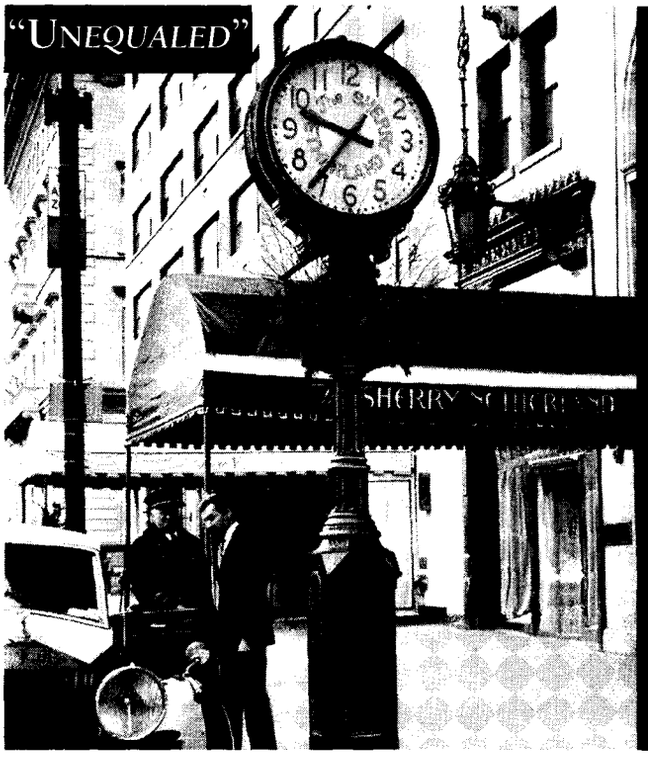
"The first thing created by God was the Intellect."
"The most excellent Jihad is that for the conquest of self."
"The ink of the scholar is more holy than the blood of the martyr."
"One learned man is harder on the devil than a thousand ignorant worshippers."
"Riches are not from an abundance of worldly goods, but from a contented mind."
"He who wishes to enter Paradise at the best door must please his mother and father."
"No man is a true believer unless he desires for his brother that which he desires for himself."
"When the bier of anyone passes by you, whether Jew, Christian, or Muslim, rise to your feet."
"The thing which is lawful, but disliked by God, is divorce."
"Heaven lies at the feet of mothers."
"Women are the twin-halves of men."
"Actions will be judged according to intentions."
"That which is lawful is clear, and that which is unlawful likewise,
but there are certain doubtful things between the two from which it is well to abstain."
"The proof of a Muslim's sincerity is that he pays no attention to that which is not his business."
"That person is nearest to God, who pardons, ... him who would have injured him."
"... yield obedience to my successor, although he may be a black slave."
"The creation is as God's family; ... the most beloved unto God
is the person who does good to God's family."
"Modesty and chastity are parts of the Faith."
"Monopoly is unlawful in Islam."

Islamic Law is based upon The Quran, examples and sayings of The Prophet (sunna), consensus among the learned (ijma), and analogical deduction (qiyas). Islamic society comes closer than any other society to the ideal democracy. All persons are equal before God; goodness is the only criterion of worth. There is no priesthood in Islam; even a child, with greater knowledge of The Quran than his elders, may lead them in prayer. To become a Muslim one need only profess, "There is no god but God! Muhammad is the Prophet of God."

This message was inspired by M. N. Masud – UNESCO mission chief, ambassador, Olympic gold medallist. The message is sponsored by Powrplan International – specialists in engineering management consulting for the electric power sector. Sponsor Inquiries: fax (703)521-3248, or write The Wisdom Fund, Dept. FA -1, P.O. Box 2723, Arlington, Virginia 22202. The Wisdom Fund is a non-profit corporation.

COPYRIGHT © 1995 ENVER MASUD • ALL RIGHTS RESERVED

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED



It is New York's legendary private hotel and the residence of world leaders in the arts and business. The Sherry-Netherland on Central Park at Fifth Avenue and 59th Street offers more than the city's best address. Its lobby modeled on the Vatican library, Italian Renaissance paneled elevators, 65 individually decorated rooms and suites, served by a staff of 120, reflect The Sherry's discerning clientele.

~ The ~
SHERRY-NETHERLAND
781 Fifth Avenue, N.Y., NY 10022
Reservations: 800-247-4377
212-355-2800 • Fax 212-319-4306

The American Assembly
and
The Pew Global Stewardship Initiative
are pleased to announce the publication of

THREATENED PEOPLES, THREATENED BORDERS
WORLD MIGRATION & U.S. POLICY

edited by
MICHAEL S. TEITEBAUM & MYRON WEINER

With international migration rising to the top of the foreign affairs agenda (Cuba, Haiti, Bosnia, Algeria, and Mexico), this essential analysis provides new approaches for U.S. policymakers.

The American Assembly, 475 Riverside Dr., N.Y.C. 10115
(212) 870-3500

Available from W.W. Norton
500 Fifth Avenue, N.Y.C. 10110

$25.00 hard cover — 1 (800) 223-4830

The Second International Conference for Business Leaders

BUILDING THE ETHICS OF BUSINESS IN A GLOBAL ECONOMY

November 8 - 10, 1995 • Columbus, Ohio

LEADERS AND SPEAKERS

Conference co-chair:
Stanley C. Gault, Chairman and CEO
The Goodyear Tire and Rubber Company

Moderator:
Daniel Schorr, Senior News Analyst,
National Public Radio

Earnest W. Deavenport, Jr., Chairman and CEO
Eastman Chemical Company

Ryuzaburo Kaku, Chairman & Representative Director *Canon, Inc.*

For reservations or more information, please call (614) 221-8661.

ETHICS IN ECONOMICS

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Israeli leadership lost its nerve and the Clinton administration its resolve.

ROGER G. HARRISON
Former U.S. Ambassador to Jordan

JAPAN'S INCOMPETENT LEVIATHAN

To the Editor:

Eamonn Fingleton argues that Japan's Ministry of Finance and its wards, the Japanese financial institutions (JFIS), are largely responsible for Japan's postwar economic success ("Japan's Invisible Leviathan," March/April 1995). He is utterly wrong.

The MOF acquiesces in fraudulent practices, market manipulation, and "loss compensation" payments. The revelation of massive repayments as "loss compensation" by JFIS to important clients in the 1980s was the result of the MOF's incestuous system of mutual obligations. Professionalism is not required in the artificial world administered by the MOF.

Fingleton neglects to mention that the "control of industry" by the MOF and JFIS backfired. This "control" over nonbank affiliates resulted in huge financial losses. The JFIS are severely hampered by deeply embedded structural flaws that result from socioeconomic and cultural limitations, MOF incompetence, and the absence of market forces. The restricted nature of market forces in Japan negates accountability and inhibits performance. The MOF and the JFIS, however, are quite satisfied with the status quo, which has produced stagnation in the name of stability.

EUGENE R. DATTEL
New York, N.Y.

To the Editor:

To my surprise, I was quoted erroneously by Eamonn Fingleton ("Japan's Invisible Leviathan," March/April 1995). While I am aware that *kuroji yuyo ron*—the theory that the world needs Japan's current account surpluses—existed in 1990-91, I never supported or proposed such an idea.

As one of the Japanese co-chairs of the 1991 U.S.-Japan Structural Impediment Initiative talks, I clearly stated that I did not support this idea, as can be confirmed by the U.S. co-chairs. My view was reflected in Japan's basic acknowledgement, as expressed in the talks' final report, that Japan "recognizes the need to continue to reduce its current account surplus and strongly reaffirms its commitment to work actively toward that end."

MAKOTO UTSUMI
Former Vice Minister of Finance for International Affairs, Japan

Eamonn Fingleton replies:

The *kuroji yuyo ron* surfaced during Utsumi's term as the Ministry of Finance's vice minister for international affairs and its chief policymaker on the matter. At the time, the initiative was officially identified as coming from the MOF. Utsumi's chief aide and immediate successor, Tadao Chino, supported the initiative by arguing that a decline in Japan's surpluses would create a global savings shortage. At the time, Utsumi was widely regarded in Tokyo as a strong leader with a firm grip on the reins of policy. Utsumi's now-revealed 1991 private disavowal of responsibility came after the idea ran into turbulence in the United States. Nonetheless, Utsumi is right in saying he was not publicly credited at the time with authorship of the initiative. While close observers of Japanese policymaking will be understandably

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

puzzled as to how the MOF adopted such an important gambit over the protests of the relevant policymaking chief, I am happy to let the record stand corrected.

UNMITIGATED GAUL

To the Editor:

At best, Ronald Tiersky makes unsubstantiated assertions about former French President François Mitterrand ("Mitterrand's Legacies," January/February 1995). Mitterrand did not help Frenchmen "reconcile themselves" to the Vichy period. He spent most of his time defending his questionable Vichy past while seeking to soften its effect on his legacy. As president, his method for "healing" wounds was to try to slow the judicial process so that no French perpetrators of atrocious war crimes would be brought to trial. We now know a great deal about Mitterrand's right-wing activities during the prewar period, as well as his enduring friendships with such extreme-right activists as René Bousquet, Vichy's police chief, with whom he remained on apparently close terms throughout the 1980s. From his own words, we know of his fidelity to Vichy and its objectives, his late entry into the anti-Nazi resistance, and his refusal ever to acknowledge past errors of judgment, speak up against a single Vichy measure, or sever his ties to Vichy and some of its notorious servants.

Tiersky repeats the now-discredited conventional wisdom that Mitterrand's embrace of the French Communist Party (PCF) led to the party's decline. In light of the fate of communist parties everywhere, sticking to this outdated explanation is tantamount to believing that French communism was somehow different and more enduring than other communist movements and that without Mitterrand, the PCF would have remained a strong, popular threat to the republic.

Tiersky may not doubt where Mitterrand's heart has been, but few people in France would defend Mitterrand as "a genuine man of the left." The floodgates of privatization, deregulation, and the market were opened under Mitterrand. Not for nothing was he dubbed Monetarist of the Year in 1989 by the *Financial Times*. These shifts may have been to Mitterrand's credit, but such policies are not normally associated with the left. During the last 14 years, the disparity of wealth in France widened dramatically. Nor should one forget the staggering corruption that profited some of Mitterrand's closest allies. While history will grant Mitterrand some credit, it will not substantiate the myths that Tiersky puts forward and that most people in France have long abandoned.

EZRA N. SULEIMAN

Director, Committee for European Studies, Princeton University

PAST MASTERS

To the Editor:

Tina Rosenberg correctly identifies many of the ways leaders have tried to confront the legacy of repression in their countries ("Overcoming the Legacies of Dictatorship," May/June 1995). Recent revelations in Argentina and Guatemala demonstrate that simply ignoring past injustices is not only socially and politically shortsighted but also a guarantee of future instability.

The Foundation for a Civil Society has created one initiative that attempts to answer the question of how societies undergoing dramatic transformations can

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

address the past so they can move forward productively and peacefully. Through inclusive consultations, workshops, and conferences, the Project on Justice in Times of Transition helps public- and private-sector leaders in democratizing countries deal with sensitive issues such as a prior regime's abuses.

The project was inaugurated at a high-level 1992 conference convened at the request of Czechoslovakian President Václav Havel in the wake of the Czechoslovak lustration law, at a time when similar legislation was under consideration by several other central European countries. Since January 1993, the project has broadened its scope to include reconciliation and civil-society development issues and has sponsored initiatives in El Salvador, South Africa, Nicaragua, and Albania. It has conferences coming up in Belfast and Warsaw.

In all the above initiatives, the project has had a profound, cathartic effect on both its hosts and speakers. The use of a broadly inclusive conference format and the participation of the media ensure that discussions that are too often the exclusive domain of political elites sift through to the grassroots, where enduring peace and reconciliation are truly achieved.

LLOYD N. CUTLER AND
WENDY W. LUERS
Founding Co-Chairs, Project on Justice in Times of Transition, Foundation for a Civil Society

EDUCATORS:

Create your own textbook with FOREIGN AFFAIRS customized anthologies.

It's as easy as . . .

1. **Choose essays from FOREIGN AFFAIRS and nine other journals to design a book specifically for your course.**
2. **Send your list of articles via mail or via facsimile to our anthology coordinator at (212) 861-2759.**
3. **Relax. We'll have your high-quality, perfect bound paperback book to you within four weeks from the time we receive your bookstore's order.**

The benefits are clear:

- **Add your own material**
- **Copyright permissions precleared**
- **3 complimentary copies included**
- **Priced for your student's budget**
- **Bookstores receive a 20% discount**
- **All recent essays are available**
- **Your name & course on the cover**

For more info, contact:

FOREIGN AFFAIRS
Anthology Coordinator
58 East 68th Street
New York, NY 10021
(212) 734-0400 ext. 722

Foreign Affairs (ISSN 00157120), July/August 1995, Volume 74, Number 4. Published six times annually (January, March, May, July, September, November) at 58 East 68th Street, New York, NY 10021. Subscriptions: U.S., $44.00; Canada, $54.00; other countries via air, $79.00 per year. Second-class postage paid in New York, NY, and at additional mailing offices. Postmaster: Send address changes to *Foreign Affairs*, P.O. Box 420235, Palm Coast, FL 32142-0235.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Foreign Affairs
presents three classics

Special Offer!

Foreign Affairs Polo Shirt

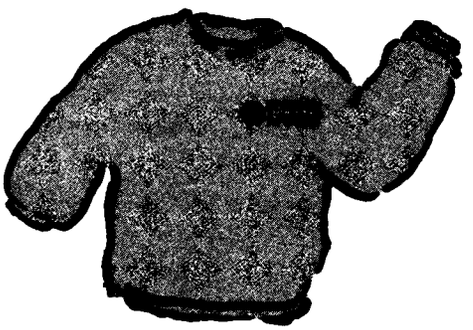
The infinitely adaptable polo shirt in 100% cotton pique with fully stitched logo. Available in Jet Black/Crimson Lettering, Navy/Crimson Lettering, White/Navy Lettering.

Originally $39.95

Now **$28.50**

Foreign Affairs Sweatshirt

Nothing more relaxed or relaxing. Heather grey, heavyweight 85% cotton 15% polyester blend. Longsleeve with black silkscreen on front. $29.95



Foreign Affairs T-shirt

White 100% heavyweight cotton. Foreign Affairs logo prominent on front and back. Perfect for laid back weekends. $14.95

FOREIGN
AFFAIRS

ORDER FORM

Please make check or money order in U.S. dollars (from U.S. banks only) to:
FOREIGN AFFAIRS, c/o Revere Mailing, 500 Hayden Station Rd., Windsor, CT 06095

Name .....

Address .....

City ..... State ..... Zip .....

Item	Qty.	Size/Color	Amount

T-shirt, sweatshirt, and poloshirt sizes Large and Extra Large only.

Domestic Shipping & Handling, $2.95 per item $

International Shipping & Handling, $4.95 per item $

GRAND TOTAL

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

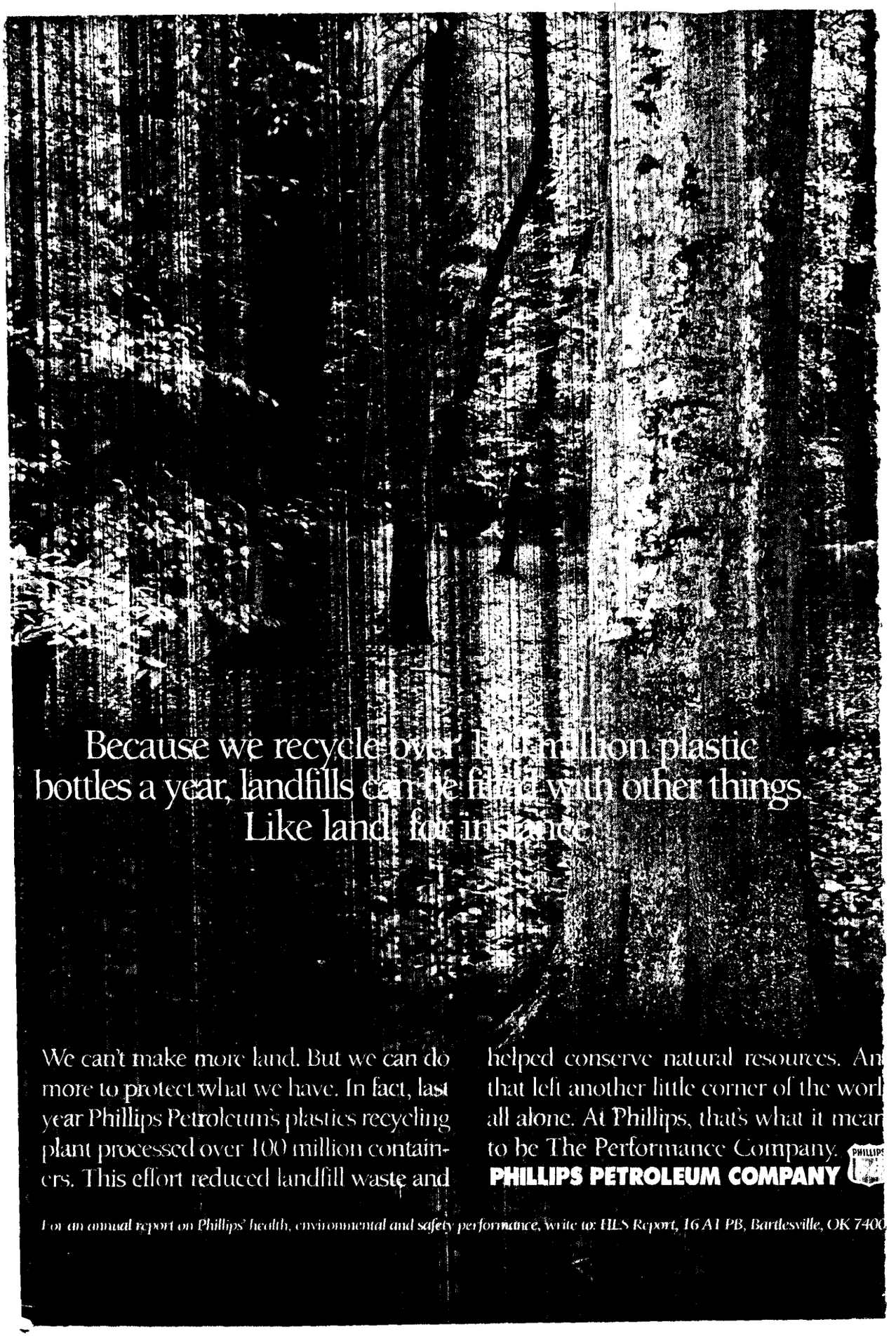
JAMES D. WOLFENSOHN
INCORPORATED

stands behind its longstanding
and firm commitment to
Latin America
and is pleased to join
Foreign Affairs
and the Latin America Program of the
Council on Foreign Relations
in sponsoring the conference

Latin America: The Next Generation

We are proud to participate
in this unprecedented gathering of
one hundred of the hemisphere's new leaders.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED


Because we recycle over 100 million plastic
bottles a year, landfills can be filled with other things.
Like land, for instance.
We can't make more land. But we can do more to protect what we have. In fact, last year Phillips Petroleum's plastics recycling plant processed over 100 million containers. This effort reduced landfill waste and helped conserve natural resources. An that left another little corner of the worl all alone. At Phillips, that's what it mean to be The Performance Company.
PHILLIPS PETROLEUM COMPANY
For an annual report on Phillips' health, environmental and safety performance, write to: EHS Report, 16 A1 PB, Bartlesville, OK 7400

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED